

EXHIBIT A

The technology identified is revolutionary in terms of processing and application technology. Unlike conventional materials used in the anti-theft applications, Microwires of amorphous (noncrystalline) alloys with thickness of 2-30 micrometers are adhered and/or applied to merchandise and are nearly undetectable. These wires are made to provide signals that are picked up by antennae located at either exits or at cash registers in retail stores. The base technology is termed harmonic or electromagnetic and relies on a special manufacturing processes to draw an amorphous alloy fiber which is encapsulated with glass in a one step process. Even more significant and remarkable is the ability to encode information on the fibers and to extract this information digitally. These signatures are so unique that they are almost impossible to replicate. The encoding process will revolutionize the retail industry and be applicable for tagging used in the road/air freight industries, personal identification tagging, pallet tagging in manufacturing processes, applications that require a tag for identifying a product, article or person in detail. With a sufficient number of bits, the tag can be interrogated to yield useful information such as what the product is, its date of manufacture, its price, and whether the product, article or person has been properly passed through a check out counter or kiosk. Further, identifying a large number of products via tags can lead to a new type of check out system for the retail industry giving rise to the much hoped for "no-wait check-out".

5.2 Market Status

The cost to make an EAS tag with existing (i.e. Sensormatic) production methods is between \$.015-\$.020/each with sales prices in the \$.025 range/each. It has been further understood that the retail industry is extremely price conscious and with every \$.001 reduction in price the market for these products will grow 2-3%. Additionally, the method of application for EAS tags is changing. Tags have been applied traditionally in the field or at the store location. Consequently, the customer incurs costs for application of the anti-theft tags and along with product costs and electronic costs. The current trend is for a tag or anti-theft device to be applied at the manufacturing location or in the product label. This "source tagging" application limits the type of product due size and process automation problems.

Our target acquisition has been developing the Microwire products that solve the source-tagging problem. The wires are small enough that they are barely detectable and can be continuously fed into packaging applications. Production costs are considerably lower than those of conventional technologies are and the product can be easily redesigned for custom applications. It is because of the high-speed production and flexibility of process that enables low cost solutions for anti-theft applications. It is believed that costs of manufacturing a one-piece tag with this process will cost approximately \$.005/each. Targeted selling prices of \$.010 each would expand the market base exponentially, yielding a 50% gross

margin and virtually eliminating any competition. This technology has the added benefit of being able to add multiple fibers to a tag and enhance or to customize the performance. Performance is measured by the distance at which the magnetic field could be received from the devices and by pick rate, number of false alarms. Four-foot aisle width is the limit today for this technology whereas eight feet is today's limit for the Sensormatic technology. However, with enhancements to the electronic transmitter/receiver it is believed that signal reception may be received up to distances to those of Sensormatic.

Microwires have the ability to be encoded, which is the next evolution in application of these materials. Our target acquisition has demonstrated capability to encode but has not automated a process for commercialization of this technology. Assuming that this can process is perfected the implication for market applications and sales are enormous. The ability to provide encoded papers for commercial application; inventory, ticketing and security papers would open up a multi-billion dollar market. Additionally, the ability to make threads with digital signals would be ideal for use in currency, checks, and passports, for other anti-counterfeiting applications.

5.3 Value

The global cost of counterfeiting, product tampering & retail theft is estimated at \$600,000MM dollars or greater and is estimated to be growing at 15% per year. Retail theft is as high as \$60,000MM each year. In the US & UK alone this accounts for 2% of store turnover and approximately 20% of store profit. As a consequence, Electronic Article Surveillance (EAS) is one of the fastest growing markets in the world and represents one of the highest growth security and product sectors.

Electronic Article Surveillance (EAS) systems are designed to help retailers increase their sales and profits by reducing shoplifting and increasing open merchandising opportunities. Comprised of detection systems at the checkout or exit of a store, the systems work with small electronic tags or labels that are affixed to the merchandise. These tags or labels are either deactivated or removed at the point of purchase. If the merchandise is removed from the store with an active label or tag still applied, an alarm will sound alerting the sales associates.

The trend in the industry is to move to source tagging and concealing EAS tags. This specifically means having manufacturers incorporate the EAS tag into the packaging of the product. This method of marketing and packaging reduces the cost of application of EAS tags and provides greater security by not providing any means of stripping the tag from the merchandise. One of the challenges confronting EAS manufacturers is to produce lower cost products having sizes and shapes that allow them to be concealed. It has been estimated that for

every \$.001 reduction in price for the tag, the available market increases 2-3%. We have identified technology that will allow us to provide a superior product at a greatly reduced price to the anti-theft market. This technology will not only significantly impact the market in performance but will also open up many new markets and applications, thus accounting for more than a doubling in market sales which is currently estimated to be \$60,000MM. This new technology is revolutionary in terms of both processing and application technology. Unlike conventional materials that incorporate two flat ribbon strips of amorphous alloy and a bias metal, this technology utilizes micro-fine amorphous alloy Microwires of thickness of 2-30 micrometers that are nearly undetectable. Our projected sales by product are provided in Section 6.5 (Sales)

5.4 Cost to Produce

Manufacturing Process for Non-Encoded Anti-theft Tags

The process refers to amorphous and nanocrystalline magnetic glass-coated wires. The wires consist of a metallic amorphous or nanocrystalline core with diameters ranging from 2 micrometers and up having compositions based on transition metals and metalloids. Also the wires have a glass coating with a thickness of about the same order of magnitude. The wires present high or medium saturation induction, positive, negative, or nearly zero magnetostriction and values of coercive field and magnetic permeability in response to needs of the market.

Process A - Description of Production:

Production is performed by sealing one end of a small PYREX® glass tube into which a master alloy is then introduced. The tube is then heated at the end until the alloy melts and the glass become soft, at which point the a metallic wire with a coaxial glass coating is drawn. The cooling rate must be high to ensure the metal is in an amorphous state. The process takes place between 900°C and 1,500°C using a molten alloy in a glass tube of defined wall thickness. The resulting wire is cooled, by passing through a cooling liquid. The wire is then collected on to spools.

Process B - Description of Production of Hard Magnetic Wire (Deactivation Material):

Production of the hard magnetic material used for deactivation of a tag is achieved with conventional furnace and high-speed casting equipment. Our process utilizes cast-to-width magnetic material rather than requiring a slitting process. This avoids any deleterious effects on tag performance due to the use of slit ribbon. It is assumed that the process will run at speeds up to twice or higher speeds than that of the amorphous alloy wire production. Finally the Microwire is coiled in-line onto spools that will later be transferred to the assembly equipment.

Process C - Assembly:

The multiple spools (12 spools of amorphous wire and 12 spools of hard magnetic wire) are fed into an automatic placement machine such that multiple strands of thread are laid on to a pressure sensitive adhesive at precise widths. The hard magnetic wire is placed over the fibers and adheres to pressure sensitive adhesives thus encapsulating the amorphous alloy wires between the pressure sensitive adhesive and the hard magnetic material. A six-inch wide pressure adhesive backing thus has multiple strands of fiber, which have hard magnetic materials placed over the amorphous alloy metal wire. The production rate of lamination is equal to the speed of production of the amorphous alloy wire (1 meter per second). The laminates are slit and cut and placed on reels.

Material Costs (per one inch piece)		
Gas		\$0.00005
Glass Tube (Pyrex)		\$0.00075
Amorphous Metal		\$0.00075
Spool		\$0.00005
Production cost		\$0.00100
SubTotal		\$0.00260
De-activation Magnetic		0.001900
Assembly Costs		0.000100
Adhesive Paper		0.002000
Packaging		0.000100
Contact Strip		0.000200
SubTotal		\$0.00240
Total		\$0.006900

Manufacturing costs for one inch-non encoded.

Process for Encoded Anti-theft Tags

This process (and product) relates generally to an identification tag, and more particularly to an identification tag that can be encoded with multiple bits of information that can be remotely interrogated and read. Our process has not yet been completely developed; however, it most likely will consist of an array of amorphous alloy wires in conjunction with a magnetic bias field. The magnetic bias is supplied either by coating each wire with a hard material that is magnetized, or by using magnetized hard magnetic wires or foil strips in proximity to the amorphous alloy wires. Each wire is caused to switch at a different value of the external interrogation field due to the differences in the magnetic bias field amplitude. This can be accomplished using geometrical (Microwire segment length, orientation, proximity to bias field source) or alloy/glass compositional factors. The efficiencies of the manufacturing processes may be greatly enhanced by means of application of a dielectric coating to the surface of the amorphous wires at high speeds. This process is

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under development. The target cost should be equal to the production cost of the anti-theft tag.

Material Costs (per one inch piece)	
Gas	\$0.00005
Glass Tube (Pyrex)	\$0.00075
Amorphous Metal	\$0.00075
Spool	\$0.00005
Production cost	\$0.00100
SubTotal	\$0.00260
Encoding Process	0.001900
Assembly Costs	0.000100
Adhesive Paper	0.002000
Packaging	0.000100
Contact Strip	0.000200
SubTotal	\$0.00240
Total	\$0.006900

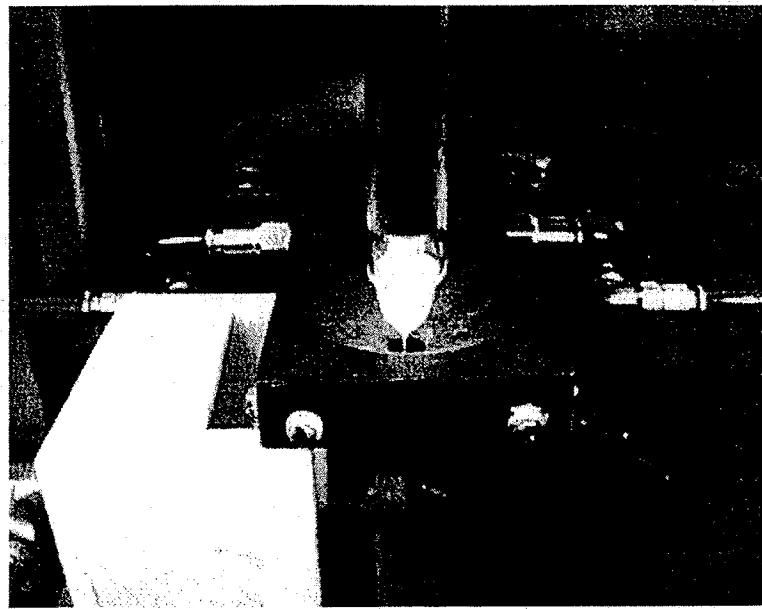
Manufacturing cost one inch encoded fiber.

Production Capacity:

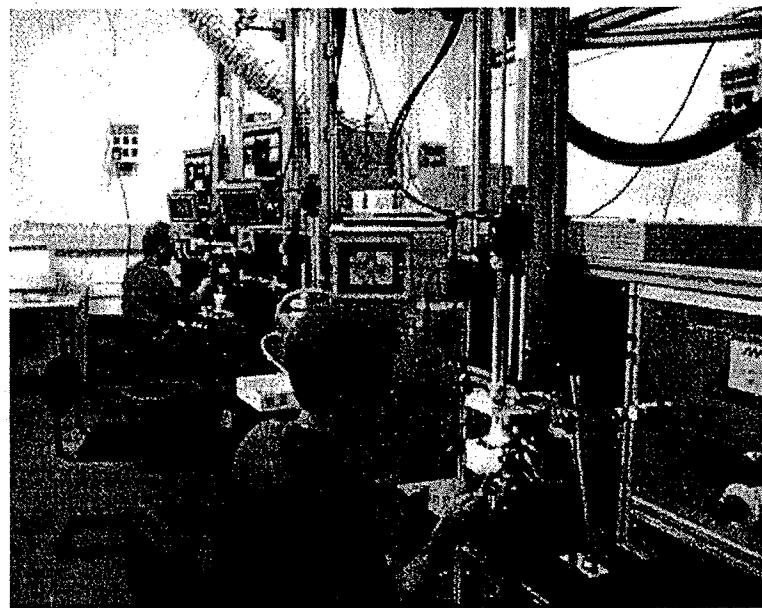
- 1 meter per second is the production rate of one wire drawing piece of equipment.
- $3.25\text{ft/sec} \times 60\text{sec/min} = 195\text{ft/min} \times 60\text{min/hr} = 11,700\text{ ft/hour} \times 24\text{hours/day}$
 $= 280,800\text{ft/day} \times 356\text{days/year} = 102,492,000\text{ft/year.}$
- $102,492,000\text{ft} \times 12\text{ pieces per foot} = 1,229,904,000\text{ tag pieces per machine}$
per year.

Assuming that one anti-theft tag requires one-one inch pieces of 3-micrometer diameter wire,

- 409,968,000 tags could be produced form one machine.



Fiber Drawing Equipment



5.5 Support

Our component line has a 90-day specification warranty and a one-year "materials integrity" warranty. No maintenance is required, only replacement.

5.6 Summary

Benefit to user: Anti-theft

- lower cost of tag (\$0.01/each vs. \$0.025/each)
- improved performance:
 - more reliable
 - more sensitive (improved performance)
- easier installation and lower cost to install in field
- smaller, concealable
- more easily source-tagged
- virtually invisible by human eye
- environmentally more friendly (lower stray fields)
- greater addressable market segment

Comparison to Competition Anti-theft

Microwire technology only recently commercially developed!

Competitors: Sensormatic, CheckPoint

Sensormatic utilizes acoustomagnetic (resonant) technology vs. our electromagnetic (harmonic) technology

- acoustomagnetic relies on principle of mechanical resonance (like tuning fork), which necessitates specialized packaging/assembly methods to enable satisfactory performance
- - electromagnetic relies on very square loop magnetic alloy (very easy magnetization); therefore, there are no constraints on packaging of tag while realizing improved reliability

CheckPoint utilizes RF (radio frequency) technology (high frequency radio waves)

- costly to manufacture
- possibly complications due to operating frequency

6.0 Marketing Strategy

Demodulation is entering the market in the introductory stage of the product type's market life cycle. The intent is to use an aggressive market penetration pricing strategy in concert with a pull promotion strategy. We will price Demodulation below the average of competitive product prices during the first several years to achieve significant market penetration. The chart below shows projected market shares over the next five years.

	2003	2004	2005	2006	2007
Demodulation	0%	.6%	3.2%	17.4%	50%
Sensormatic	58%	58%	54%	40%	25%
Wallace	3%	4%	5%	5%	4%
Checkpoint	20%	21%	21%	21%	15%
Other	19%	16%	16.8%	16.6%	6%

We will manufacturing our products domestically and pursue some vertical integration of value added products within the enterprise to maximize our gross profits. Our major dependence is on the proof of concept and ability to attain product performance. Demodulation will market Microwire by using an in-house sales organization. Product promotion will be achieved with minimal advertising effort initially and some publicity by Demodulation. The bulk of the promotional activity will be initiated in years 2005 and on.

6.1 Target(s)

PHASE I

In year 2003 we are concentrating on field test trials for the anti-theft products. These tests will be targeted to major retail chains in specific locations throughout the US. The objective of these tests will be to qualify the tag and gating systems performance. These beta tests will also provide the necessary proof and testimony of the integrity and reliability of the systems for the anti-theft market. With these testimonials, an aggressive promotional and sales campaign will be launched to penetrate the entire North American market. In order to meet the expected customer demand for these products, Demodulation will hire the five best sales managers from competitive industries. These sales managers will be strategically located in the Northeast / Mid-Atlantic / South / Midwest and West. Service centers will be established initially at the regional sales offices. These centers will be distribution centers for our products. The second stage of our marketing and sales effort will be directed at the label and packing industries. Due to the unparalleled features of Microwire, the evolution of the anti-theft products industry will move toward (source tagging) incorporation of Microwire into packaging and labels. Therefore, Demodulation will aggressively market it's Microwire to the source tagging market, and simultaneously develop in-house label and printing capabilities that will provide high margin value-added products lines. The combination of raw material manufacture and assembly of anti-theft products and source tagging capabilities does not exist in the world market. Incorporating these processes and products will enable Demodulation to dominate the world market for EAS products.

PHASE II

The adaptation of the fundamental technology utilized in the Retail markets will rapidly incorporate into the security applications. The proven integrity, reliability and low cost combined with the enormous market demand for security solutions will result in applications of Microwire in the accreditation, currency, and credit card industries. Marketing and Selling of these product developments will be accomplished and directed by specialist in the security industry. The company will aggressively seek and retain the highest level of personnel available.

PHASE III

The company will strategically develop encoded Microwire products. These products will have the capability of storing several bits of information and therefore be ideal for registering and rapid recall of stored digital information. This product will revolutionize inventory control, ticketing, access control, accreditation services, and countless other applications. Beta site testing will be conducted at the World Trade Center locations in North America. Once complete integration throughout the entire WTO organization will be completed and provide a world wide marketing opportunity. A new division of Demodulation will be established and the necessary marketing and sales specialist will be hired for this highly profitable and specialized market.

PHASE IV

Demodulation will expand its markets for Microwire products through new innovations and application engineering. Targeted applications include inductive components, sensors, thermal management devices and military applications. An engineered materials group will be established to focus on the development of these highly profitable materials and markets.

6.2 Image

Demodulation has assembled world-renowned scientific personnel with extensive developmental and applications experience in the fields of amorphous metals, glass science and magnetics technologies. Our primary objective has been first to assemble the technologist and second to acquire and integrate Microwire technology and production. We believe the integration of this unique talent and technology will provide the foundation for the commercialization of break-through technology in the anti-theft markets and security products.

By virtue of the reputation of the personnel affiliated with this enterprise, Demodulation will be viewed as a "world class" technological enterprise in the industry. Our goal is to be the most profitable producer of anti-theft products in the world, by providing the highest quality products using the most efficient manufacturing processes.

6.3 Promotion

For our initial EAS component products we are employing a strict PULL strategy. All promotion will be done through our sales force by providing them suggested ad content, artwork, photographs and product literature, technical applications information that they in turn use to promote the products to their customers. Our sales force will be enthusiastic about promoting the products.

Because of the reputation the products will have gained and the fact that our products will have been proven to out perform those of the competition.

Our strategy will change to a strong PUSH plus a weak PULL after successful market penetration. The PULL methodology will be identical to that used for the EAS components. The PUSH process will be a combination of an initial round of publicity followed by aggressive advertising via promotional publications directed toward the merchandising and retail industries and aggressive promotion at trade shows and industry seminars.

6.3.1 Image

Our goal is to be the most profitable producer of anti-theft products in the world, by providing the highest quality products using the most efficient manufacturing processes. Initial beta -site testing will confirm the reliability, integrity and dependability of EAS systems. The unique antenna/receiver design coupled with the unique harmonic signature enables our products to outperform existing RF, acoustic magnetic and electromagnetic products in the market. The virtual invisibility provides additional safety features for our customers. Specifically, these products will be incorporated into the label and packaging process which make them undetectable and impossible to remove from the retail merchandise.

Our customers will benefit from an increased gating angle that is a factor of 30% greater efficiency. The gating angle refers to the position of the EAS device relative to the receivers. In current systems, there is a position where the device is not detected. This position is tested and referred to as the gating angle. Our product has performed significantly better (30%) than Sensormatic products. This represents a dramatic improvement in the performance and integrity for the Microwire products and systems. This performance can be enhanced further by placement of Microwires in multiple locations thus ensuring 100% reliability. This is not cost effective with current technologies.

The particular unique construction of Microwires enables them to be utilized in a greater variety of applications that have not possible with existing technologies. The geometry of existing products made combined with the higher costs did permit justify their application in source tagged products and / or imbedded into plastics, cardboard, paper and fabrics. Microwire products fulfill the engineering requirements for these applications and are cost justifiable.

The most significant feature of Microwire that separates it from other products in the market is its versatility, which allows it to be applied and incorporated into a broad variety of applications. This is achieved through applications engineering methods and not through development of new manufacturing processes. Therefore, our cost to our customers is minimized through marginal non-reoccurring engineering charges. The versatility of our products in the market, as

perceived by our customers, will increase the overall acceptance of our products and lead to continued applications development.

For Demodulation, we will create an image of the "best" product (in quality, function and dependability) for the most competitive price.

6.3.2 Publicity

We anticipate a significant amount of publicity will be required to launch our new **non-encoded EAS** Microwire product lines. We will conduct "prototype demonstrations" for representatives from a number of industry publications, anticipating positive response. We expect to see several good "new product" articles in the fourth quarter of year 2003. We will be making arrangements for 10 business to install Microwire EAS systems in their facilities. Upon successful completion of this beta-site testing, Demodulation will invite the press (with approval from client) to perform a case history promotional article. At the same time, new product announcements will be set to every identifiable media-source.

The publicity and promotion for our encoded Microwire products will be structured differently. By nature of the fact that many of these products will be utilized in government applications or where secrecy and non-disclosure are of paramount importance, testimonials will not be disclosed. All and any publication or promotion of this technology will be determined as classified or non-classified. Assuming the release of information is granted for commercial applications, product introduction will be made on a selective basis with selected preferred customers. Demodulation recognizes that success in the encoded Microwire product is ground breaking technology and will have a daily impact on our society in the areas of theft, security and anti-counterfeiting. In the security industry, the less information freely available in the public forum, will enhance the overall effectiveness and value of the product. Therefore we will evaluate any and all promotion of this technology with extreme discretion.

6.3.3 Advertising

Demodulation's marketing strategy as it applies to advertising and promotion is to structure our product introduction to the market in the following methodology:

PRODUCT:

**AWARENESS
COMPREHENSION
BELIEF
TRIAL
ADAPTATION
APPROVAL**

Based on the aforementioned methodology, Demodulation will structure its advertising and promotional campaign as follows:

		Dollar Expenditures (in Thousands of \$)				
		2003	2004	2005	2006	2007
Advertising and Marketing Services						
Literature		\$50	\$100	\$150	\$500	\$5,000
Article Reprint						
Competitor Comparisons						
Feature Explanations						
Benefit Explanations						
Concept Evaluation						
Advertising Thrust		\$50	\$100	\$350	\$2,000	\$12,000
Corporate Image						
Product / Service Family						
Product / Service Features						
Competitive Comparisons						
Medium		\$200	\$250	\$500	\$3,500	\$18,000
Magazines						
Trade Journals						
News Papers						
News Letters						
Television						
Trade Shows						
Conferences						
Direct Mail						
Web Services						
Total		\$350	\$450	\$1,000	\$6,000	\$35,000

The first year of Advertising and Promotion is entirely directed and focused upon proof of concept.

The 2nd year budget will focus on awareness through adoption, while years 2005 and on will focus on trial and adoption of our products by the end-users.

Budgeted Advertising and Promotion beginning in year 2005 is 4% of gross sales.

6.4 Pricing

We intend to aggressively price Microwire EAS products below the expected pricing of the competition in order to capture as much market share as possible. We expect Sensormatic to introduce in the market a new EAS product utilizing Unitika fiber made in Japan sometime in year 2003.. This product is based on electromagnetic principles and will compete directly with our Microwire. This product will be greater in diameter and will not provide the same performance characteristics as Demodulation's products. The Unitika product is expected to be priced some 25% below current Sensormatic products. Because Sensormatic and CheckPoint have so much marketing strength we will continue our aggressive pricing for several years. The recommended retail price of \$0.025 for Sensormatic's current acustomagnetic products will be 5 times our cost to manufacture (COM). The new Unitika fiber-based products will be 3.7 times our COM. Two years from now, we expect to increase pricing by 25% to the retail industry while reducing our COM. Our pricing projections are based on one fiber one inch long with a hard magnetic ribbon placed over the fiber and adhered to an adhesive tape. We have not included price projections for our encoded products that we believe will command a 200 to 300% premium in price.

The chart below shows a comparison of our price versus the projected prices of our competitors for EAS applications.

	2003	2004	2005	2006	2007
Demodulation	\$0.010	\$0.010	\$0.0125	\$0.0125	\$0.0125
Sensormatic – Acustomagnetic	\$0.025				
Sensormatic – Unitika Wire	\$0.01875				
CheckPoint – RF	\$0.04				
Wallace – Acustomagnetic & RF	\$0.025				

Note: Wallace is a licensee of Sensormatic

We expect to market and sell our Microwire products direct to retail and source tagging manufactures. We believe that no pricing concessions will be made, due to the low cost and competitive advantage that our Microwire products will provide to our source-tagging partners. (Demodulation's strategy is to expand it's product offering by the acquisition of it's own source tagging operations in the future).

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The chart below shows Gross Profit comparisons based on sales of value added source tag products. The Retail Selling Price represents a typical label for an off the shelf product. Assuming the cost of the material and application process for the Microwire is \$0.0125 (including the application of the EAS component of \$0.0025) we anticipate that a 60% markup can be commanded for the Microwire-based products. Therefore with a typical label cost of \$0.04 per unit and today's average selling price of \$0.0525 per unit (a 25% gross margin) a source tagged label could sell for \$0.725 per unit. This translates into additional revenue for Demodulation as demonstrated as follows:

	Typical Retail Label	Demodulation Source Label Margin	Existing Margin
Retail Selling Price	\$0.0525	\$0.0725	\$0.010
Cost to Manufacture	\$0.0400	\$0.0525	\$0.005
Gross Margin	25%	27.5%	50%
Gross Profit	\$0.0125	\$0.0200	\$0.005

The opportunity to increase gross profits is achievable by incorporating the manufacturing of the source tagging process into Demodulation,. Once the proof of concept and market acceptance is obtained, Demodulation will actively seek potential value-added applications to increase margins and / or gross profits.

The successful development of encoded Microwires will generate enormous revenue opportunities for the company. We anticipate pricing to be as follows:

Demodulation	2003	2004	2005	2006	2007
	N/A	N/A	\$0.0375	\$0.0375	\$0.0375

Competing Product Name No Known Competition

The applications for Microwires in security card applications create premium pricing opportunities. We expect to market on/off capabilities initially. The selling price for these products will be significantly higher (two to three times) selling price than the Retail Industry. With the advancement of encoding, we will be able to increase our price an additional 2 - 4 times this as the capabilities of the Microwire increase in their capacity to hold information.

6.5 Sales

Demodulation will be driven by the Marketing and Sales group of this corporation. Clearly defined Markets and Sales opportunities will drive our development efforts. The Sales and Marketing group will be closely involved with all aspects of product development through customer acceptance and application. Our management staff has extensive experience in all aspects of product development, marketing, sales, distribution and international marketing. Additionally, management has market knowledge for security, printing and label manufacturing.

We currently have 3 individuals who will be responsible sales and marketing combined with promotional materials that is provided to the customer. We will be adding five more people during year 2004 as Demodulation products become fully developed. Presently there is no Marketing Manager, all personnel report to the President. This will probably continue until sometime next year. Our personnel will receive sales commissions.

Our sales force will sell direct to the retailers, merchandisers and tagging and label manufacturers for the first two-three years. We anticipate our sales group expanding significantly in the next ten years covering North America and world markets. Additional markets will include security, ticketing and paper manufacturers. Our plan is to have five regional offices initially located in the Northeast, Mid Atlantic, South, Midwest and West coast by end of year 2004. The groups will be supported technically from our corporate engineering development facility which will perform applications testing and evaluation studies that will provide proof of product and design support for the field sales staff.

Demodulation intends to hire the best sales professionals available in the field of Security and EAS systems. At our applications development center we will provide training and strategy for our staff. This staff will be equipped with the best support personnel in the world and all product selling will be engineering-based. Our sales staff will be directed to be aggressive and focused with specific targeted goals. Although the sales staff will be on salary we will provide a sales incentive structure that will be based on a percentage of sales (0.5%) for all sales within his territory. Once product development and application testing is complete, Demodulation expects each salesman to be able handle \$15MM in sales volume.

Management, keeping corporate goals and initiatives of application development in line with the sales efforts will initially define customer prospects and leads. Once customer acquisition has been attained in those specific areas, the Sales Managers will be responsible for providing their specific territory growth plan, including personnel requirements, and the implementation of SAP (Sales Automated Process). Lead generation will be initiated from the corporate office

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through the marketing group. Each territory will receive the contact information and a complete overview of the customer, the industry they are in, and the specific value that Demodulation can provide with its products. Every lead and experience through the sales process will be monitored and shared throughout the organization in weekly.

Monthly Sales Projections and Forecast will be an integral part of our management philosophy. All necessary resources will be allocated to achieve the targeted objectives in each region.

Year	Price/part (\$/unit)	# of Pieces Sold	Sales (M\$)
2003	0.010	160,000,000	1,600
2004	0.010	500,000,000	5,000
2005	0.010	2,500,000,000	25,000
2006	0.010	7,500,000,000	75,000
2007	0.010	30,000,000,000	300,000

6.6 Distribution

Demodulation does intend to use distributors for Microwire products for the North-American market. However, we will have to evaluate the possibilities and costs associated with stocking distributors in order to better serve our international clients. Our approach to selling in the international market will be facilitated by commissioned agents. These agents operate on a 5% commission basis.

6.7 Logistics

The retailing industry will be able to forecast demand 3-6 months prior to release of product. Historical trends for retail forecasting have for the most part have been reasonably accurate. Therefore providing a basis for production lead times of Microwire products to meet customer delivery requirements. Demodulation will adopt a Just-in-Time delivery model after appropriate production capacity has been installed. Demodulation will implement a comprehensive on-line order entry system, compatible with the leading initiatives i.e. Commerce 1 and Ariba to

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allow our customers to integrate directly into the order entry process. This will assure up to date schedule release and inventory requirements. We will further augment this ability with strategically located distribution centers located in each of the 5 sales regions.

Warehousing and transportation of the Microwire product can be handled by currently available freight methods. Because of the sturdy construction and density of packing, large volumes of product can be shipped in relatively small volumes of space, without fear of damage or degradation of product. The actual weight of an EAS tag is feather light and therefore the cost of shipping is not a factor. Furthermore the products viability does not require special HVAC, humidity, or other types of environmental atmospheres to be stored for long periods of time. The Microwire product's shelf life is virtually infinite, therefore allowing Demodulation to manufacture in one location to ship around the world.

All Products will be shipped FOB-Plant and/or distribution center.

6.8 Support

Our non-encoded Microwire product line will have a 90-day tolerance specification warranty and a one-year "materials integrity" warranty. No maintenance is required, only replacement. Our shipping department will handle any returns. Demodulation will have a one-year warranty on parts and workmanship for our antennas, transmitters and receiver. We will have a customer support group for Demodulation, which will take responsibility for managing customer support. There will be an engineering support staff for which will be provide on-site technical support and resolve quality assurance issues. Repairs for products out of warranty will be on a "for profit" basis. The engineering support staff will provide rapid response to all customer inquirers.

6.9 Summary

Demodulation is entering the market in the introductory stage of the product type's market life cycle. The intent is to use an aggressive market penetration pricing strategy in concert with a pull promotion strategy. We will price Demodulation below the average of competitive product prices during the first several years to achieve significant market penetration. The chart below shows projected market shares over the next five years.

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CheckPoint	20%	21%	21%	21%	15%
Other	19%	16%	16.8%	16.6%	6%

We will manufacturing our products domestically and pursue some vertical integration of value added products within the enterprise to maximize our gross profits. Our major dependence is on the proof of concept and ability to attain product performance. Demodulation will market Microwire by using an in-house sales organization. Product promotion will be achieved with minimal advertising effort initially and some publicity by Demodulation. The bulk of the promotional activity will be initiated in years 2005 and on.

7.0 Competitive Analysis

There are seven enterprises that are Demodulation's most likely near term competitors, the strongest being Sensormatic. A list of these competitors is shown below.

Competing Enterprise	Type	Product Name	Price/Tag
Sensormatic	AM	Ultramax	\$0.025
Wallace	RF	Ultramax	\$0.025
CheckPoint	RF	CheckPoint	\$0.070
Sentry Technology	RF	Micro-magnetic Strips	\$0.015
Respa	RF	HardTags	\$0.100
Dynatag	RF	Dyna-Tag	\$0.090
Tag Point Ltd.	RF		

In general the competition has average profit margins, but their market strength is greater than that of Demodulation. They have established excellent credibility in the marketplace. Past history would indicate the group has considerable experience. Sensormatic has a very strong commitment to the marketplace, however, current conditions (acquisition by TYCO) place them in a position that, if necessary, will cause them to restructure the company due to poor cash flow. They have tremendous skills to successfully compete in the market and if history is any indicator, they will respond to our market entry efforts in an aggressive manner. The group of competitors listed in the tables above will present a considerable challenge to Demodulation

A summary of several aspects of these competitors is shown below. The summary includes company age, the importance of the product to them as a business, their cash position, channel relationships, size, long term commitment to the market and whether they will follow normal "rules" of competition.

Competing Enterprise	Age (yrs)		Product Emphasis	Cash Position	Channel Relations	Size	Long Term	Type
Sensormatic	36	hi	hi	poor	xlg	lg	high	excl
Wallace	3	hi		exc	xlg	lg	high	excl
CheckPoint	37	hi	hi	avg	xlg	lg	high	excl
Sentry Technology	8	low	hi	poor	sm	sm	med	med
Respa		low	low	ave	sm	sm	med	low
Dynatag	25	med						
Tag Point Ltd.	9	low	med	poor	sm	sm	sm	med

Compare Demodulation its competitors as shown in the following table. All competitors are more experienced and have more staying power than Demodulation. Both Sensormatic and CheckPoint have better access to the market than does Demodulation, but Demodulation has the least number of inhibiting factors with respect to product quality, cost, and customer need (responsiveness, etc.)

Competing Enterprise	Experience	Staying Power	Marketing Strength	Freedom Of Action
Sensormatic	HIGH	HIGH	HIGH	MED
Wallace	HIGH	HIGH	HIGH	HIGH
CheckPoint	HIGH	HIGH	HIGH	MED
Sentry Technology	LOW	LOW	LOW	LOW
Respa	MED	MED	LOW	LOW
Dynatag	HIGH	HIGH	MED	MED
Tag Point Ltd.	LOW	LOW	LOW	LOW

Provided below are profiles for each of the competitors described above.

Sensormatic Company Description

Sensormatic Electronics Corporation (NYSE:SRM) designs, manufactures, sells, services and supports the world's most advanced lines of fully integrated electronic article surveillance (EAS), video surveillance, access control, electronic asset protection (EAP) and security management systems. The company's sales address all market segments including retail, gaming, government, education, public and private industries. Sensormatic also leads the security industry in integrated source tagging – a process where consumer goods manufacturers apply anti-theft tags at the point of packaging or manufacturing.

Sensormatic is also a leading distributor of video surveillance systems to security dealers calling upon businesses in the world. The company has also recently introduced its SensorSmart™ product line based upon radio frequency identification (RFID) chips to address retail supply chain operations such as inventory control issues.

The company's products are sold and serviced in more than 113 countries worldwide through both direct and indirect sales forces. Ninety-three of the top 100 retailers in the world are Sensormatic customers, as are more than half of the Fortune 500 companies.

Demodulation LLC**Business Plan**

Founded: 1966
Annual revenue: \$1,103.1 million (FY01)
Employees: 5,200
Manufacturing Facilities: Florida, Puerto Rico, Ireland, China and Brazil.

Corporate Headquarters:
951 Yamato Road
Boca Raton, FL 33431-0700

Interesting facts:

- More than 450,000 Sensormatic anti-thefts systems installed worldwide.
- 64% worldwide market share of stores using article protection equipment.
- More than 2,500 consumer goods manufacturers applying Sensormatic anti-theft tags to products.
- Official Electronic Security Supplier and a Sponsor of the 1996 and 2001 Olympic Games.
- The acustomagnetic technology, marketed under the Ultra-Max® name, offers the highest EAS anti-shoplifting performance in the industry.
- - Superior wide exit detection capability
 - Choice of pedestal designs and systems to meet any aesthetic and performance need
 - The only 100% concealed Floor-Max™ system
 - New advanced systems with Digital Signal Processing (DSP) for high detection, auto phasing, remote diagnostics, reduced service needs
 - Label deactivation solutions to fit any checkout need
 - High performance, best-in-class hard tags to suit every need
 - Complete line of accessories to ensure the highest level of antishoplifting protection

Ultra-Strip® Labels

Sensormatic's Ultra-Max® family of Ultra-Strip® EAS labels sets the standard for EAS labeling of consumer goods. Engineered for high detection and high defeat resistance, Ultra-Strip labels are the best choice for shoplifting protection.

- The ultimate source tagging label solution
The perfect solution for food, music, discount, drug, consumer electronics, books, and all other retail market
- Smallest label offered (footprint)
- Works with all existing Ultra-Max systems
- Deactivatable/reactivatable
- No false alarms
- Offered in white, barcode, black, microwavable, and custom
- Sheet or roll formats
- Convenient tabletop applicators for use with roll formats
- Special versions for drop-in application

CheckPoint

Company Description

CheckPoint Systems, Inc., is a \$700 million multinational manufacturer and marketer of retail asset tracking and protection products. Established in 1967, CheckPoint today is the world's leading provider of radio frequency (RF) based loss prevention systems to the \$1 trillion global retail industry.

CheckPoint is traded on the New York Stock Exchange (NYSE: CKP).

Capitalizing on our RF engineering expertise, bar coding capability and product development resources, along with our extensive market experience, we continue to enhance our product offerings and to expand our roster of innovative supply chain management and security solutions.

Resources include:

- 1,700+ sales and service representatives
- Presence in 27 countries
- Global service bureau network
- 17 strategically located manufacturing facilities

1999 acquisition of Meto AG reinforced our strengths:

- Expanded source tagging through Meto's service bureau network
- More auto ID products and services
- Greater support for e-commerce operations
- Broader offerings to serve the entire retail supply chain management industry

From production line to point of purchase, CheckPoint Systems, Inc. offers a comprehensive range of solutions for branding, tracking and securing assets. CheckPoint enables retail, library and commercial/industrial customers to increase productivity and profitability throughout the supply chain.

Checkpoint solutions range from simple price tickets to sophisticated labels that integrate inventory management, authentication, promotion and security functions; from desktop bar code printers to a global network of service bureaus; from CCTV cameras and EAS systems to computer-controlled remote monitoring and item-level RFID products that streamline inventory management and support customer self-checkout.

With a world-class network of engineering, manufacturing, sales and service operations around the globe, we offer a single, convenient source for asset identification and protection worldwide.

Radio frequency identification (RFID) is one of today's most exciting and fastest growing technologies for increasing efficiencies and improving profitability. Already the world's leading supplier of RF antennas and disposable tags for retail RF electronic article surveillance (EAS), CheckPoint offers leading-edge RFID capabilities for retail, library and commercial/industrial applications. CheckPoint has:

- More than 30 years of RF experience
- Partnership with Mitsubishi Materials Corporation
- Large installed RF base—350,000 systems worldwide
- Unmatched manufacturing capacity—five billion tags per year
- International sales, service and support network

Leveraging global leadership:

CheckPoint's joint venture with Mitsubishi Materials Corporation, under the Diamond CheckPoint Development Group banner, has leveraged the company's respective strengths in RF technology and integrated circuitry. The result is an entire family of RFID products, including low-cost 13.56 MHz RFID tags, advanced fixed and portable readers and application development software.

CheckPoint's RFID products are poised to revolutionize the way the world manages materials, with advantages that include:

- Non-line-of-sight reading
- Simultaneous reading of multiple items
- Increased read accuracy
- Ability to add, delete or modify item-specific data on the tag throughout the supply chain

Business Wire:

THOROFARE, N.J.--(BUSINESS WIRE)--Jan. 2, 2002--Checkpoint Systems, Inc. (NYSE:CKP) announced today that a Swiss Court has ruled that Sensormatic AG, a subsidiary of Sensormatic Electronics, and All-Tag Security AG, a subsidiary of All-Tag Security S.A., a Belgium-based company, have infringed upon two patents owned by Checkpoint Systems related to deactivatable radio frequency security tags.

Damages and an accounting of profits will be determined at a subsequent hearing.

"One of the infringed patents ruled on by the Swiss Court is the same patent which is the subject of an infringement case against Sensormatic and All-Tag we filed in May 2001 in Federal Court in Philadelphia," said Michael E. Smith, President and Chief Executive Officer of Checkpoint Systems. "Our patented technologies are a valuable asset, and we are continuing to exercise our rights against those who infringe our patents around the world. The Swiss decision supports our long held policy of protection of our technology investments."

Checkpoint Systems, Inc. is a multinational company that manufactures and markets labeling systems designed to improve efficiency, reduce costs and provide value-added labels solutions for customers across many markets and industries. Checkpoint is a leading provider of EAS and RFID systems, source tagging, barcode labeling systems, hand-held labeling systems and retail merchandising systems. Applications include automatic identification, retail security and pricing and promotional labels. Operating directly in 30 countries, Checkpoint has a global network of subsidiaries and provides professional customer service and technical support around the world. Checkpoint Systems, Inc.'s web site is located at.

Wallace

Company Description

Wallace is a leading provider of products and services to FORTUNE 1,000 customers, producing and distributing forms, labels, direct response and commercial printing. Total Print Management combines all of these products with our innovative service and management tools to make Wallace the one source for all your print material.

Wallace offers retailers:

- Licensed Ultra-Max™ Label Manufacturing
- Authorized reseller of Checkpoint's RF labels
- Quick response and rapid turnaround (orders shipped within 24 hours)
- Multiple points of distribution for fast delivery
- Integrated solutions, with a variety of custom label solutions for all applications
- Inventory management

Wallace offers source taggers (manufacturers & packagers):

- Licensed Ultra-Max Label Manufacturing
- Authorized reseller of CheckPoint's RF labels
- Quick response and rapid turnaround (orders shipped within 24 hours)
- Multiple points of distribution for fast delivery
- Integrated solutions, with a variety of custom label solutions for all applications
- Inventory management
- Source Tagging Automatic Application (authorized Label Aire distributor)
- Source Tagging Certification Center (free product certification)

Wallace developed a Vendor Source Tagging Program to help retailers build compliance among its vendors. We offer a comprehensive program that makes it easy for your suppliers to properly apply Sensormatic labels during the manufacturing or packaging process.

By partnering with Wallace for your Vendor Source Tagging Program, you will receive benefits such as:

- Source Tagging Training for Vendors
- Product Certification
- Consultative Sales on Applicator Equipment for Vendors
- Quarterly Progress Reports and Audit Reports on Labels Sold
- Certification Status Reports
- Integrated EAS Labeling Solutions for Vendors
- Local Sales Representative

Wallace's goal is to offer source taggers and retailers a complete EAS label market solution that maximizes the quality, efficiency, and consistency of the security label supply. Wallace will also maintain three months inventory for its customers to ensure continuous production goals of the customer and meet retailer demands.

Wallace is an authorized reseller of CheckPoint's RF Labels. Wallace can help you customize your CheckPoint RF labels by imprinting barcode, price, logo or other information onto the label. We can also integrate your RF label into a prime label or hang tag.

Sentry Technology

Company Description

Sentry designs, manufactures, sells and installs Knogo Electronic Article Surveillance (EAS) systems to prevent shoplifting in retail stores. These include Radio Frequency (RF) systems (2 and 8MHz) and Ranger (UHF) systems to protect soft goods in apparel and department stores in malls.

Micro-Magnetic™ (MM) and 8MHz RF systems are widely used to protect hard goods in supermarkets, drug stores, discount stores, bookstores and other specialty stores. MM pedestal systems detect strips that are the most economical and smallest EAS tags available. The 8MHz RF systems include a choice of pedestal or overhead systems each using an economical disposable label.

Strategic Alliances

All-Tag Security, S.A.

Sentry Technology Corporation joined forces in April 1999 with All-Tag Security, S.A., a privately held Belgian Company, by entering into cross-distribution agreements to market their technologies.

Under the agreements, Sentry's Knogo North America subsidiary is a distributor of All-Tag's RF deactivatable EAS labels in the United States and Canada. These labels, which operate on the same frequency and are compatible with Checkpoint Systems, Inc.'s equipment, complete Knogo's family of RF detection products that include pedestal and overhead RF systems in both 2 and 8.2 MHz configurations.

All-Tag Security, S.A., formed in 1994, designs, manufactures and sells a complete line of RF deactivatable labels from 8.2 MHz to 10.5 MHz compatible with all RF detectors or deactivators used worldwide.

3M

In March 1996 KNOGO North America Inc. and 3M , the leader in library innovation and technology, joined forces to provide universal asset protection to libraries across North America. This strategic relationship will strengthen service to library customers.

The agreement enables KNOGO to distribute all 3M library products, such as 3M Tattle-Tapeä Security Strips, detection systems, 3M SelfCheck System hardware and software, and other 3M library materials flow management products and accessories to public, academic, special and government libraries across North America.

In addition, 3M provides service and installation for all new and existing KNOGO library customers throughout the United States and Canada.

Corporate Emphasis

Sentry Technology continues to focus engineering and marketing efforts on EAS, conventional CCTV and expanding installations of the proprietary SentryVision® traveling CCTV surveillance systems. Domestically and internationally Sentry Technology is expanding SentryVision® distribution through independent integrators and dealers. Expansion of our EAS business is being augmented by exploration of strategic partnerships to quickly access new markets and to develop international sales.

Dealer and Distributor Programs

Sentry sales personnel and independent dealers sell SentryVision® systems for commercial, industrial and institutional customers in the United States. Internationally. Authorized Distributors handle sentry product sales in individual countries.

Dealer and Distributor Programs have been established to appoint qualified business partners to resell and install Sentry products.

REPSA**Company Description**

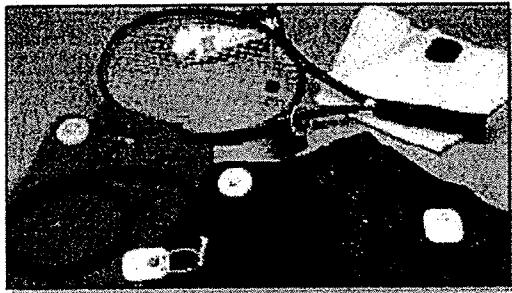
Repsa was created to offer you an additional source for security systems that would compliment our Ketec EAS product line. We can provide many types of loss prevention systems, products or suggestions to fill your general or specific needs.

RF Products

Hard Tag - This strong but lightweight tag is designed to protect any type of soft goods item. Tags are attached prior to articles being placed on the sales floor and are detached at point of sale.

Mini Tag - This round tag is lighter weight and offers supreme protection for any type of soft goods item. Aisle widths of up to 4 feet may be protected with the Mini Tag.

Lanyards - May be used in conjunction with hard tags to protect: belts, video cameras, sporting goods items, luggage, purses, etc.



The Adhesive label is designed to protect any non-metallic hard goods item, including compact discs, cassettes, video cassettes, books, boxed items and cosmetic items. Two sizes of labels are available to work at varying distances. A 3-foot pedestal separation may use either the 1.5" X 1.5" or 2" X 2" label, a 4-foot pedestal separation requires the 2" X 2" size. These labels are deactivated by using either the Electronic Deactivation Plate or the Deactivating Label.

Dyna Tag Company **Description**

DynaTag manufactures and sells security systems, specifically Electronic Article Surveillance (EAS) products and labels, using Electromagnetic (EM) technology, for both retail and library applications. Their products offer security solutions at a competitive price, backed by more than 25 years of experience. DynaTag's installations are domestic and international, and they sell directly to end-users as well as security dealers. DynaTag's constant quality program ensures the best products and virtually no maintenance once the system is installed.

DynaTag's products are ideal for a wide variety of retail applications. Their competitively priced systems represent a smaller investment in security systems, increasing the store's revenue.

DynaTag's systems use standard electrical outlets; no dedicated line is needed. The sleek design of the systems blends beautifully with any decor and is available in three colors: gray (standard), white, and black.

Demodulation LLC

Business Plan

Choose from our large variety of adhesive labels for the best security tag for your application, offered at low prices.

Appropriate Retail Applications:

Auto parts • books and CD • card and novelty • clothing • computer and electronics • cosmetics • pharmacies • eyewear • grocery • hardware • home-improvement • liquor • shoes and accessories • software • video

DynaTag

Retail Labels

Choose from our large variety of adhesive tags. The tags come in sheets of 10 or in rolls of 500 or 1,000. The finish is clear, white, black, and fake bar code. The minimum order is 5,000 tags.

Hard tags are also available, standard color: beige. These tags are commonly used to protect clothing and fashion accessories.

Tag Point Ltd

Company Description

Tag Point LTD. Electronic Article Surveillance and Observation Systems dedicated to providing precise and utmost protection against shoplifting, down to the smallest detail. As a developer and manufacturer of high quality anti-shoplifting equipment, Tag Point continuously seeks optimal prevention solutions for the market of the future.

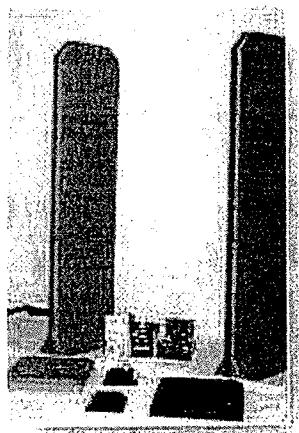
The company's customers vary from government departments through chain/department stores to industry, commerce and the private sector. To achieve this, Tag Point maintains excellent business connections with wide range of manufacturers and distributors of electronic components all over the world. It devises cost-effective systems which provide precision, accuracy and reliability to the end-user (the retailer). Having established its status in the market, the company is consolidating its strategy to meet the growing demands for effective EAS products for better detection facilities by the manufacturing, retail and industries in their effort to combat increasing losses. Tag Point prides itself in its extensive after-sale technical support, based on its outstanding, experienced and knowledgeable engineers and technicians.

Tag Point, formed in 1992, a limited liability company, operating from modern premises, situated close to the main highway to the international Ben Gurion Airport. The premises include a suite of offices, a show room and a modern,

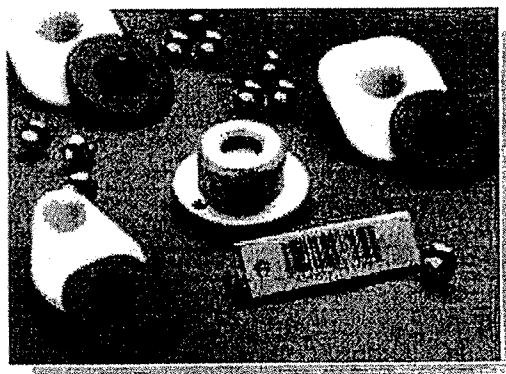
Demodulation LLC**Business Plan**

well equipment factory. The company is currently in the process of building a new factory of 1000 square meters, in the south of Israel.

Tag Point LTD has the infrastructure, experience, market knowledge and determination, and will be taking 10% of the market share in EAS equipment by the end of 1999. To help achieve this objective the company is seeking long-term arrangements with distributors that will operate as sole agents in their countries.



EM SYSTEM - 1100 us\$



TYPES OF TAGS

8.0 Development Programs

Demodulation LLC**Business Plan**

Our development program has the objectives of providing new products for the market, improving applications that already exist and insuring that we employ the most effective manufacturing techniques possible.

We are achieving this with revolutionary encoding processes and new manufacturing processing methods. Our product technology will most likely be patentable. Demodulation may elect to patent these advancements or hold these as trade secrets. We are completely aware of the world patent situation for Microwire processing and applications and are fully prepared to either develop our own technology, license existing technology or purchase companies owning the rights to these patents. ACS, is our targeted acquisition and is the first option for fast tracking into this market. Our second option is to license Romanian technology. And our third option is to develop in-house.

Assuming the acquisition of ACS is achieved, Demodulation will operate for the first two years with manufacturing operations in Israel and Research and Development facilities at Alfred University and Application and Development facilities in New Jersey. All additional expansions in production will be done in the United States. First, for standard EAS systems in 2004 and second for encoding systems in 2005/2006.

The first two years capitalization costs for manufacturing are estimated to be no more than \$1.5mm dollars. The assembly equipment will be re-developed for optimum performance and throughput. The existing pieces use 12 Microwire feeds and we estimate that this feed system can be more than doubled thus improving our efficiencies by more than 100%. The casting process will also be improved to more than double existing outputs.

8.1 Objectives

Phase I of Demodulation's Technology Development Plan is the Perfecting of the Microwire processing/property-developing technology.

For Demodulation to meet its first marketing objective it must acquire the Microwire technology and business assets of ACS from AMT in Israel. The commercial application of Microwire EAS products is currently underway. Demodulation knows and has established in this plan, that our Research and Development team coupled with the Sales and Marketing group will perfect the product for widespread use. Demodulation acknowledges that the acquisition of the Israeli company would shorten time to market. However, if the acquisition of ACS proves to be too costly, or during due diligence determines that ACS' processes are not as valuable as initially perceived, then Demodulation will develop the Metallurgy, Glass Chemistries, and Manufacturing processes in-house with enhanced features. Therefore,

assuming the successful acquisition of ACS, Demodulation will qualify, quantify and enhance the performance of the Microwires technology.

Phase I of the Technology Development Program consists of:

- Integration of the Israeli/Russian Scientists with the Demodulation Research Team.
- Formalize Joint Relationship with Alfred University and the Ceramics Innovation Corridor.
- Establish the Corporate Offices and Center for Applications Development in New Jersey
- Develop a comprehensive product development program in conjunction with Alfred University that will:
 - Assess current product performance versus that of competitors offerings.
 - Evaluate and develop new glass compositions in combination with compatible amorphous alloy chemistries that will either improve manufacturing speeds, product quality, and/or performance. This will include the following areas of expertise from our team:
 - Thermal Expansion - Matching glass to metals
 - Surface Conditions - Glass to metal interface
 - Amorphous Alloy Chemistries - Modifications to match redeveloped glass compositions.

The successful completion of these development efforts will most likely lead to a series of process and product patents of Microwire for Demodulation which will be allow us to control the worldwide market for EAS products and applications.

Phase II of the Technology Development Plan is to perfect the design for high speed manufacturing processes for the fabrication of Microwire based on the achievements and success of Phase I.

- Introduction of multi-head casting inductors.
- Development of high speed winding equipment (continuous)

Phase III of the Technology Development Plan is the optimization of the EAS Microwire tag for commercial applications.

- Development of optimized tag construction will be done in concert with development of antenna/receiver systems.
- Limitations in performance of single strand or multi-strand EAS tags may be overcome with enhancements and redesign of the antenna/receiver systems.
- A partner for joint development of the electronic antenna/receiver systems will be established.
- Optimal designs for the EAS tag will be finalized based configured antenna systems.

Phase IV of the Technology Development Plan is to introduce the product to the Beta-test sites where customer experience will be charted and used for the continued refinement of the Microwire product. The decision to proceed will be based upon a go / no go from the applications data obtained from the customer's trial application. The Research and Development team will also rely upon the feedback from Sales and Marketing for overall customer satisfaction and cost versus performance analysis.

Phase V of the Technology Development Plan is to adapt the Microwire product into accreditation applications. This includes the introduction of Microwires into plastic laminations, which ultimately be used in access control, credit cards, passports, and state / federal I.D. credentials:

- Develop lamination process and compatibility of glass bonding to plastics.
- Determine optimum diameter and chemistry suitable for application.
- Determine volume and spacing for applications for Microwires.
- Optimize method for placement of Microwires into substrates.

Phase VI of the Technology Development Plan "Encoding Application Development" will start once completion of the EAS system is achieved. This technology relates generally to the EAS tag and more particularly to an EAS tag which can be encoded with multiple bits of information and which can be remotely interrogated and read.

- Demodulation and Alfred University will solicit federal funding for research and development for security / intelligence application development.
- Assuming ACS is acquired, Demodulation will solicit funding from the Bird Foundation, an Israeli / American grant program for funding Israeli and American joint ventures.
- Alfred University will solicit New York State Funding for development efforts in the area of encoded products for security applications.
- Demodulation will establish a highly secure facility to perform the development activities of encoding. This will be done at Alfred University.
- Development will proceed with activation of glass by laser methods which includes:
 - Doping of glass to accept laser treatment
 - Photomask imaging and subsequent electroplating of hard magnetic materials
 - Sequencing of multi-diameter wires in combination with various metallurgical composition.

Patents:

Demodulation has determined that ACS has developed several patented technologies for Microwires in EAS applications. These application patents have been defined previously. A process patent for production of Microwire having

amorphous alloy core appears to have been originally filed by Dr. Horia Chiriac in the United States in June of 1996. An application with the PCT was also filed that year. The assignee for the Chiriac patent is the National Institute of Research and Development for Technical Physics in Romania. Demodulation is currently in negotiation with Dr. Chiriac for the rights to these patents. Coincidentally, in 1996 Dr. Chiriac has co-authored a lengthy dissertation on the methods of manufacture and the physics of properties of Microwire.

We believe however, that this patent will be a non-relevant once development is complete at Alfred University per Phase I of the Technology Development Plan. Once Phase I is complete, Demodulation's unique and patentable process will release it from virtually any patent infringement claims.

The conclusion form the above Technology plan is that Demodulation will possess the dominant technology in the world market for EAS systems, and revolutionize the anti-theft market with encoded technology according to the technology plan.

8.2 Organization

The development organization is a small group that will grow to five personnel this year. The CTO, Howard Liebermann a Ph.D. in Metallurgy and Materials Science, and has been with Honeywell Amorphous Solutions Division of 20 years prior to joining Demodulation. The responsibility for managing people is not new to Dr. Liebermann, and he is exceedingly knowledgeable with the technologies being developed. For example, Dr. Liebermann was involved with the development of the competing technology that Unitika licensed from Honeywell for the production of centrifugal casting of amorphous metal wires. He will direct the activities of our Research and Development facilities globally.

The development team will incorporate the use of state of the art analytical equipment at Alfred University and develop testing procedures and methods at our application center. Dr. Hasegawa will manage Demodulation's Applications Group and has extensive experience in the development and physics associated with EAS systems. Dr. Hasegawa has intimate technical familiarity with the systems currently in use by Sensormatic and has excellent qualifications and experience to direct and to assist in product development and applications development area for our products. It is important to recognize that Dr. Hasegawa and Dr. Liebermann both endorse the Microwire technology and see the growth opportunities for Demodulation for these products. There could be no greater endorsement in the world today.

Dr. Bill LaCourse will manage the Alfred University Research and Development efforts. Both Phase I and encoding development will be handled

with his staff. Dr. Manov will most likely work with Dr. LaCourse and attempt to integrate the Israeli and Russian scientist with Alfred's research.

The integration of these scientists is a key element in progressing this technology to the next level.

8.3 Market Status

The component products for ACS are a new technology and have been recently introduced to the European markets and in the US market through Sentry Products. Demodulation will develop many new product offerings such as value added products for security applications and encoded products scheduled for availability early in 2004 and 2005. All the technology for Demodulation has not been tested, we are now in the final stages of testing the product and determining the complete performance capabilities.

8.4 Schedules

The manufacturing operation is the "backbone" Demodulation. The process of Casting wires, and assembling these to pressure sensitive substrates combined with a hard magnetic ribbon, is a ultra-high speed and extremely reliable process. If we have any appreciable slow down in these processes we will quickly see the impact in our revenue. The operation is completely automated, and will be managed by very experienced personnel, using state of the art equipment and employing the most sophisticated quality control/computer monitoring systems available. This process will not be labor intensive nor will it require highly educated personnel to operate. Because some aspects of the operation are unique (and patented) to Demodulation, limited access to personnel will be given and all training will be performed in-house. For the encoded products manufacturing operations, access will only be permitted to personnel who have been screened through the intelligence community.

Our production volumes will increase dramatically in the first five years. Our facilities and equipment will accommodate the first three-year's projected growth, but will have to be expanded for any growth beyond that. We will also be introducing an assembly line and a new manufacturing process for Demodulation in 2005. This involves new equipment, personnel and procedures and will require that the manufacturing manager spend a large portion of his time ensuring this program goes well.

8.5 Technology

Microwire and Miniaturization

Trends in miniaturization technologies have demanded new materials and method for their productions from through disciplined materials science and engineering.

The development of thin film technologies followed by the revolution in telecommunications and computers, is a good example of such response using materials science and engineering.

Many technical solutions in miniaturization technologies also require very thin wires. However, conventional technologies are not able to reduce the wire diameter below a certain limit, e.g., the minimal diameter of a copper wire cannot be less than 9-10 micrometers. Fabrication of the thin wires with magnetic properties presents an even more difficult problem.

ACS has presented information on the development of the industrial technology of Microwire fabrication, this wire having diameter ranging from 2micrometers and up. The opportunities for preparation of various materials in the form of very thin and long wires are so wide that the developers of the technology can suggest only a small part of the possible applications of these innovative materials.

The Technology

In contrast to conventional drawing technology, the new process is one based on liquid metal casting. The master alloy is placed into a glass tube and melted by induction heating. The glass heated by the molten alloy softens because of the dramatic reduction of its viscosity. As a result, two coaxial flows arise: one of the molten alloy in the center, the other of softened glass surrounding the metal core. After leaving the heating zone, both flows are pass through a water stream, thereby causing cooling and solidification. The result is a Microwire with a metallic core surrounded with a glass coating. The velocity at which the Microwire is wound on a bobbin is from a few meters, to some hundreds of meters per minute. Although the process seems to be simple, it truly is a multi-parameter process, requiring sophisticated process control and special methods for the preliminary treatment of the melt and glass raw materials.

Where It Comes From

The method for the preparation of Microwire referred to as the Taylor-Ulitovsky method has been known for many years. This technology was widely used in the

former Soviet Union until the early 90's. Advanced Metal Technologies Ltd., an Israeli company, successfully developed new materials, using this technology to develop new metallic wires with outstanding qualities.

Industrial Facilities

In 1999, Advanced Metal Technologies together with worldwide known Global Wire Group www.global-wire.com established a joint company, Advanced Micro Wire Productions Ltd. www.awp-amt.com, to scale-up the laboratory technology and to thereby develop industrial facilities for Microwire production.

Nowadays Advanced Micro Wire Productions produces amorphous metallic alloys Microwire with unique magnetic properties on an industrial scale. At the same time the production of the conducting Microwires with a conducting core of a metal such as copper, silver or gold is under development.

Production technology allows us to achieve:

- The overall diameter is quite uniform and deviation is less than 2 microns.
- The wire length is practically unlimited.
- The metallic core diameter is quite stable and deviation is less than 10%.
- The production process is fully automatic and fully controlled with online recording of the actual diameter of the Microwire
- The production process is very stable and the machine can run continuously for many hours.

The Microwires and Applications

Conductors:

The Microwire with glass insulation can be considered not only as an extension of the diameter range of conventional thin wires below 10 micron, but as a new material, that can generate new applications.

The following properties of the Microwires can be listed:

- Overall diameter of 5 micrometers can be achieved easily
- Heavy insulation, by glass, if needed, is trivial.
- Very high dielectric strength (20,000 volts or more).
- Dielectric strength of the glass insulation (breakthrough voltage is by 5 to 7 times higher compared with the traditional magnet wires.)
- Conventional wire with polymer insulation can not stand temperatures above 100°C-150°C while glass coated Microwire preserves its insulating properties up to 500°C-700°C.
- Minimal bending diameter is between 40 to 200 times the diameter according to the glass layer.

Practical usage of the above advantages includes, in particular, micro cables for telecommunications. Another interesting application can be for miniature high-voltage transformers. Thin sub-ten micron silver Microwires can be used as conductors at high frequencies.

Soft magnetic wires:

During the last 15-20 years, amorphous metallic alloys have found various industrial applications due to its unique magnetic properties explained by their microstructure. These materials successfully replace conventional soft-magnetic materials.

The industrial technology developed by Advanced Metal Technologies allows the fabrication of amorphous materials in the form of wires with thickness ranging between 2 - 150 micrometers (depending on the application).

Amorphous glass coated Microwires reveal unique mechanical, electrical and magnetic properties. Amorphous Microwires based on cobalt, nickel and iron expose extremely high magnetic properties in which they perform better than ferrites and amorphous ribbons which makes them material for high frequency applications in the range from tens MHz to about several GHz. The unique High-Frequency properties of thin amorphous Microwires allow AMT to develop the new generation of miniature magnetic components for telecommunication.

In particular the miniaturization of telecommunication devices requires developing planar DC-to-DC converters, magnetic amplifiers and other power electronic components operating at frequency up to 5 MHz and more. It implies also that inductor elements must be easily integrated into micro-fabrication technologies.

Experimental study demonstrates that amorphous glass coated Microwire gives a set of advantages for fabrication of miniature inductive components compared with ferrites, amorphous ribbons, or thin magnetic films. It allows extending operation frequency range and reducing magnetic and proximity losses. Microwire-based magnetic components can be readily integrated into the micro-fabrication technology.

Glass coated amorphous Microwire is a very promising material for shielding and noise suppression in the 0.1 - 2 GHz frequency range. It is known that the effective absorbing can be achieved if the magnetic material has a proper value and orientation of the magnetic anisotropy relative to the vectors of electromagnetic field. It was shown by AMT that magnetic anisotropy of the Microwire may be strictly controlled during fabrication process. Depending on composition of the alloy and the diameter of Microwire the field of the internal magnetic anisotropy lies in the very wide range of 10 to 5000 A/m. It is possible to produce a Microwire magnetized both along and perpendicular to its axis. Moreover, AMT have developed the method for preparation of composite

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materials with different orientation of Microwire fibers so that we may control the space distribution of magnetic anisotropy in these materials.

The first commercial product fabricated from Microwire is the amorphous Microwire used as an element in anti-theft labels in the EAS system. Its efficiency is substantially higher than that of amorphous ribbons, which have been used, in similar products for the last ten years, see www.eas-t.com

Other applications of the magnetic Microwires include: products and documents Authentication, Brand Protection, and Access Control.

Due to the new advanced production technology the wire is continuous with practically unlimited length. AMT's new capability promotes the idea of using glass coated amorphous Microwires in the above mentioned applications. Microwires can be embedded continuously into Security Papers.

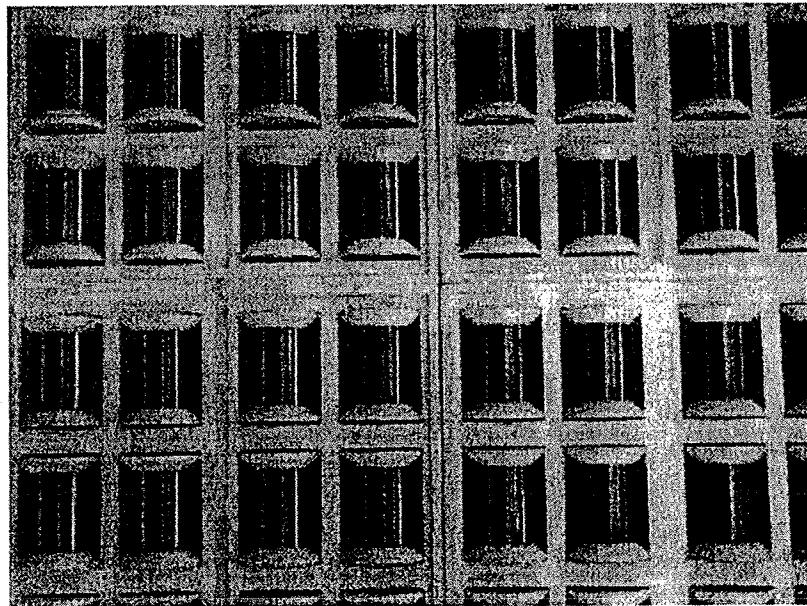
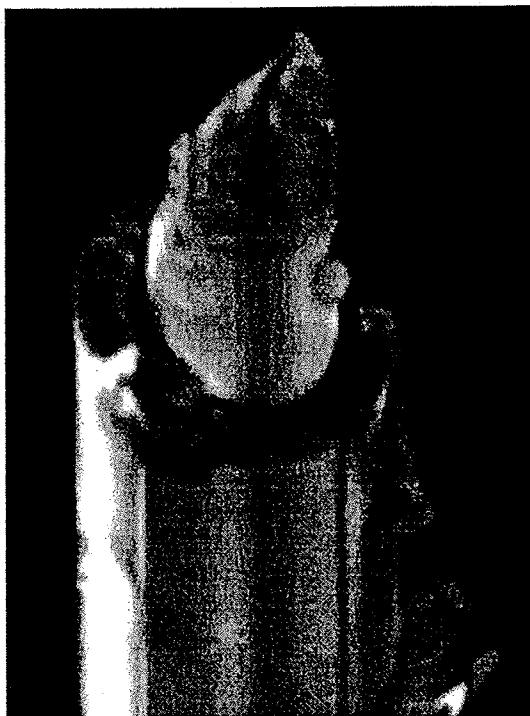
At present the most popular technique used for protection against counterfeiting is the hologram technique. However in parallel with the improvement of the hologram protection technology, counterfeiting of the hologram themselves is growing. It is explained by the easy access to the hologram technology for both developers of hologram protection methods and counterfeiters. Usage of magnetic Microwires in parallel with holograms seems to be a very promising solution.

The Glass Coated Microwire is a very promising material for design of different types of magnetic sensors.

Energy saving is an important issue for all devices with autonomous power supply.

Any magnetic core prepared from magnetic Microwire is characterized by much lower energy loss for eddy currents than any other materials due to its extremely high electrical resistance and insulating glass coating thus preventing any electrical contacts between the Microwires. The developed material is very flexible and can be shaped almost without limitations without losing its magnetic properties.

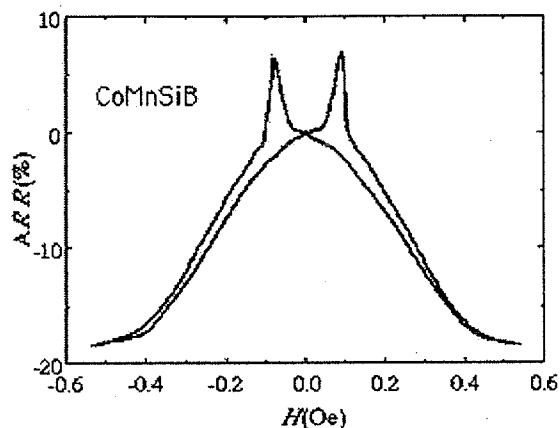
There are many other potential applications of glass coated Microwires. Many special alloys (metals and semi-metals) in the form of Microwires with unique properties may be prepared for using in medicine, chemistry, development of new class of composite materials and others.



Amorphous Magnetism

Amorphous magnets are magnetic metals such as iron and cobalt which have been melted and then cooled extremely quickly. Whereas cooling slowly creates crystals with a regular lattice, cooling quickly causes the atoms to be in complete disarray. This has some interesting consequences. Crystals have certain special directions (like when you cleave diamonds), but amorphous materials have no preferred directions and this is what makes them interesting. Amorphous magnets are often used in transformers.

One thing we are studying about amorphous magnets is microwave magneto-impedance. This is basically the change in the microwave absorption that depends on the magnetic field. Potential uses for this include magnetic field sensors and read head device for disk drives. Here is an example of the magneto-impedance of a Microwire.



The basic metal is cobalt with some silicon and boron to help ensure that it won't crystallize. The wire itself is only about 5- μm . Fine human hair has a diameter of about 50- μm .

9.0 Operations/Production

The Demodulation operations will transition from the existing facilities in Israel to their permanent site in western New York State. The manufacturing processes for Demodualtion will be highly efficient and automated. The cost associated with building a Microwire machine is \$100,000 and less based on costs provided by ACS. The production rates estimated to be greater than one meter per second which equates to at least 39 anti-theft tags per second. Based on our forecast we will require two machines operating the first two years. Our sales forecast mandates a dramatic increase in capacity for 2005, which will require additional equipment and expansion of facilities. We will operate one assembly piece of equipment in Israel 2003 and this is expected to run at 25 feet/second with five multiple strands running simultaneously. This capacity will be sufficient for our sales needs through the end of 2004. We will require modifications of the casting equipment and/or the assembly equipment to enable enhanced product offerings. This will result in tags that have improved performance. Processes and design of equipment utilized at our facilities will directly impact our EAS systems and applications. One of our biggest issues will be development of equipment that can tightly control the position of multiple Microwires per tag. Some applications will warrant different designs, which is a major selling feature for the versatile Microwire technology. The versatility of Microwire technology will create significant increases in business that is based, for example, on new and varied tag configurations. The capital funding required will depend on the nature and the magnitude of system improvements envisioned.

The capital needed to expand this operation is relatively low compared with the volume of out put and revenue generated from these expenditures. These processes will be highly automated and continuous thus requiring minimum personnel. This process will be the most efficient in the world and have the flexibility for producing new alloy and glass chemistries as well as new Microwire products. Demodualtion will have the lowest cost, the highest quality production capabilities, and the finest technical staff to support these operations.

9.1 Organization

The manufacturing of Microwire will be done at a site in western NY near the facilities of Alfred University. We will seek funding from the NYS development agencies and of which the specifics are yet to be finalized. This subsidization will provide some financial assistance for the start up cost of our operations. However, in the first year of operation we will continue to produce Microwire in Israel until Alfred University completes product enhancements. Therefore the

Demodulation LLC**Business Plan**

first year of operation in New York will be developmental only and require lab technicians and scientist at Alfred. We assume that these costs will be absorbed under our developmental budget. This organization will consist of:

Dr. Bill LaCourse

Dr. Alexis Clare

Dr. Xingwu

2 Lab Technicians

We will produce in Israel Microwire for commercial applications in Europe, i.e., groceries, ticketing and EAS. We will assess the viability of the sales in Europe simultaneously with developmental efforts in the United States and determine if Israeli production operations need to be sustained. This decision may be predicated on the negotiations with the seller and due to the possibility of government subsidy in the past we may be required to run a facility in Israel for some period of time. We will not know the specifics until the appropriate information becomes available through due diligence. We are assuming that the facilities available from this acquisition are limited to technology first (patents and trade secrets), technical personnel (5) and two managers.

Dr. Manov - Technical Director

Eli Yarkoni - Business Manager

Five scientists (manufacturing)

and the following equipment:

4 wire manufacturing machines and a developmental unit

1 tag assembly machine located at Pitkit (requires two technicians)

Antenna Systems Capability

Not specifically knowing at the time of this plan, but it is assumed that "EAS-T Company, a separate and independent company of ASC, is a sole source of supply of receiver components to ACS. It is assumed that the facilities will be integrated into our acquisition. Personnel from this operation is estimated at 3 people and the actual processing equipment list will have to be made available at a later date. Further evaluations will determine the long-term locations of these operations. Demodulation believes that improved designs will be evolving as developments from Alfred University are achieved.

The wire production capacity from this acquisition will be adequate for the first years based on our forecast of \$1.6MM in year 2003 and \$5MM in year 2004. The assembly equipment designs will need to be re-engineered beginning in year 2003 and be done in tandem with development efforts at Alfred on the Microwires. This will be essential due to the lengthy lead time requirements for equipment manufacturers.

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We additionally will have facilities in New Jersey which will be the headquarters and house the applications engineering group, which will consist of;

Jim O'Keefe

Dr. Liebermann
Mike Bethea
Dr. Hasegawa
Office Manager

A total of 22 employees are initially budgeted based on the above structure. The manufacturing organization will have 12 individuals and represents about 55% Demodulation's personnel. We expect to employ about 22 employees in year 2003 and then expand this operation to more than double that by the end of the year 2004. We plan to hire all of the personnel we need in the local area that is ideal given the strong presence of Corning glassworks.. Our facilities are adequate for this year's expected growth, however, growth beyond that will require more space, unless we decide to go to a two-shift operation.

The manager, Eli Yarkoni, is an experienced manager in Israel and has a good grasp on the component manufacturing for EAS tags and systems. Eli is responsible for all operations management of the technical group in Israel. He will be invaluable in negotiating with the various groups, i.e., Pitkit, EAS-T, and CheckPoint (a venture operation with ACS). Mr. Yarkoni is in tune with Western marketing principals.

We will use custom designed, computer controlled equipment which will be completely automated and reduce the need for handling and labor. The development equipment utilized at Alfred will either be shipped from the development group at ACS or we will utilize a production piece of equipment. ACS has fully trained people and will transfer the training to Alfred. The manufacturing process requires that one person for four machine on the Microwire equipment while the automated tag assembly equipment requires two people, one to load the equipment and one to off load the product. We intend to completely eliminate the need for such personnel when the equipment is re-engineered.

Additional process equipment will be added based on market justifications and need. We expect that we will incorporate laminating and printing equipment in years 2005. This permits the company to participate in greater gross profit from sale of value added products.

9.2 Suppliers

For Demodulation, we have not yet selected the suppliers. We will however, has access to several suppliers in the United States for our component business who include:

- Carpenter Technology, Reading, PA / Arnold Engineering Rockport, IL, Vacuumschmelze, Germany - hard magnetic strips
- Avery Dennison, OH / 3M Minneapolis, MN - pressure sensitive adhesive tape
- HC Stark, MA, Certified Alloys, CA - alloy raw material and ingots
- Schott Optica, Durea, PA / Corning Glass - Pyrex glass tubing
- BOC, NJ / Air Products, NJ - inert gas

We believe that Schott and 3M are current suppliers to ACS and that Vacuumschmelze is the supplier for the hard magnetic ribbon.

Strategic Alliances or joint ventures with our suppliers will most likely be favored for the long term. We believe that the supply and quality of raw materials will be a factor in terms of our competitive abilities. Of course long tem contracts with price/volume forecasting is a preferred arrangement. These contracts will allow us to increase profit and reduce materials costs.

9.3 Sub-contractors

We do not anticipate the need to subcontract work.

9.4 Technology

There are several proprietary manufacturing technologies used in the production of Microwires:

- Chemistry of the wire alloy
- Compositions of the hard magnetic materials
- Glass composition
- Wire drawing processes
- Tag assembly

Casting methods for production of hard magnetic materials (if done in house)

ASC has advised Demodulation they have patented technology for the product offerings. These patents are listed in the marketing section. However, we have

also identified a patent by Horia Chiriac issued applied for in Nov. 12, 1996 and issued May 2001 in the United states that clearly describes the casting process used by ACS. Dr. Liebermann and Dr. Manov are currently reviewing existing prior technology in this area to determine the effects of the patent on our operations. However, Demodulation is currently having dialog with Mr. Chiriac regarding the rights to these patents. Currently the patents are assigned to the National Institute of Research and Development for Technical Physics in Romania. There is a possibility for Demodulation to obtain a license for this technology. However, as discussed previously in this plan, we believe that that there are opportunities for us to design products and processes that are beyond the scope this patent. With the development of new glass coatings we most likely will improve the product and processes to manufacture. Such improvements would enable us to have our own patents and technology. We may elect not to patent and hold this technology as a trade secret. Other patents for placement of hard magnetic materials on Microwires have been granted to IBM. We have discussed with IBM the possibility of our securing this patent. Again, we believe that we will develop new and unique processes that will obviate the need for the patents of others.

It is necessary to point out that the talent assembled with this enterprise is of unusual proportions. We have a team of technical skills unparalleled in the amorphous and anti-theft industry. Combined with glass technologist at Alfred we are afforded the unique opportunity to advance the state of anti-theft technology. This would allow us to leapfrog the competition. The unique combination of Demodulation's skill sets will significantly impact processes, products and applications resulting in our own patent portfolio.

9.5 Quality

Demodualtion will use across -functional team approach for developing facilities, processes and equipment plans in conjunction with the advanced quality planning process. Plant layouts will minimize material travel and handling, facilitate synchronous material flow, and maximize value-added use of floor space. Methods will be developed for evaluating the effectiveness of existing operations and process considering the following factors: overall work plan, appropriate automation, ergonomics and human factors, operator and line balance, storage and buffer inventory levels, value-added labor content.

A comprehensive continuous improvement philosophy will be fully deployed through our organization. We will continuously improve in quality, service (including timing, delivery) and price for all customers. This continuous improvement does not replace the need for innovative improvements.

Demodulation will establish, document and maintain a quality system as a means of ensuring that products conform to specified requirements. Our company will prepare a quality manual covering the requirements of this for our staff and international standards. The quality manual will include quality system

procedures and outline the structure of the documentation used in the quality system. Additionally, Demodulation will have a documented process for determining customer satisfaction, including frequency of determination, and how objectivity and validity are assured. Trends in customer satisfaction and key indicators of customer dissatisfaction will be documented and supported by objective information. These trends will be compared to those of competitors, or appropriate benchmarks, and reviewed by senior management.

Demodulation will become a registered ISO 9000 facility in three years. QS-9000 requirements are not needed unless automotive applications grow. Our quality plans will incorporate 6-sigma methodologies to affect process improvements.

9.6 Inventory

For our Microwire products we have minimal inventory requirements. Our process will be driven by on line order entry data systems. We anticipate operating on a just in time method, or as close as to this system as possible. The lead time required for an order of our raw materials is estimated less than two weeks, however our reorder points will be set to occur when we are down to a four week supply. All inventories will be monitored weekly. The shelf life of all of these materials is long and is not a factor in our ordering process.

Our finished inventory will be packaged in predetermined quantities and stored in bins, each marked by product name. The amount of any one product to be maintained in inventory will be determined by our sales/marketing department, who will provide a weekly "build" report that specifies what products are to be manufactured that week. The selection of components to be manufactured will be based on marketing's projection of orders combined with backlog schedules.

During the start up of assembly process, introduction of a number of new inventory problems will arise. The Microwire will take up very little space and has extended shelf life so we will, if need be, be able to readily inventory product in any location. Microwire and tags are so small that we could airfreight them during the initial stages of development. The tape used in the assembly of tags is perhaps the most difficult item to inventory because of the limited shelf life. We will evaluate this issue when schedules become more defined. We will have to set up a secure storage area and a method of distributing the components as the anti-theft tags are produced. As the business grows, suitable expansion will incorporate the needs for inventory space and processing. It is expected that we will be able to turn our inventory 24 times a year. This will be accomplished with through a combination of effectively negotiated annual contracts, minimum release requirements, computerized schedules and effective forecasting.

10.0 Investment Capital

10.1 Initial Funding

Current projections indicate that an investment of \$20MM is required to carry the business through the first four years of introducing Demodulation products. The 20MM injection of capital is not needed to be drawn on day one and will be drawn as needed and specified in this plan. Management is prepared to offer equity in Demodulation in exchange for this commitment, for which the investors will receive a 40 percent ownership in Demodulation. Management wants to avoid multiple rounds of investment sourcing. Management's experience is that too much time spent in fund raising activities can be distracting and can be damaging to achieving the company's operational goals.

10.2 Use of Funds

The investment will be used to fund the acquisition of ACS, the ongoing stages of research and product development, marketing and sales development and introduction of anti theft products. These funds will also be utilized to expand manufacturing operations and capacity as sales increase over time.

10.3 Return on Investment

Demodulation is poised to be the dominant manufacturer in the world of anti-theft and security products. The corporate objective is to be cash flow positive in three years, and grow this revenue \$300MM Dollars (US) in five years.

Years four and five of the business plan will provide substantial gross profit margins and net cash flows. This will enable Demodulation to consider strategic acquisitions or to be acquired by another company. If the latter direction is chosen an initial public offering opportunity may be the case. Either event will provide the opportunity for the investors to achieve significant returns on its investment through a planned exit strategy within 5 years.

11.0 Financial Projections

11.1 Year One Income/Expense

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
Revenue:													
Product/Service sales	0	0	25,000	50,000	75,000	150,000	150,000	200,000	250,000	250,000	250,000	1,600,000	0
Maintenance													0
Consulting Services													0
Royalties													0
Interest													0
Other													0
Cust. Dcp./Sale of Assets	0	0	0	0	0	0	0	0	0	0	0	0	0
Total revenue	\$0	\$0	\$25,000	\$50,000	\$75,000	\$150,000	\$150,000	\$200,000	\$250,000	\$250,000	\$250,000	\$1,600,000	\$0
Expenses:													
Cost of goods sold													
Management Salaries	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	300,000	0
Non-management Salaries	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	300,000	0
Production Expenses	0	0	12,500	25,000	37,500	75,000	75,000	100,000	100,000	125,000	125,000	800,000	0
Other	0	0	12,000	12,000	12,000	12,000	12,000	20,000	20,000	25,000	25,000	183,000	0
Gross margin	(\$50,000)	(\$50,000)	(\$49,500)	(\$42,000)	(\$29,500)	\$8,000	(\$5,000)	\$20,000	\$20,000	\$25,000	\$25,000	(\$73,000)	0
Management Salaries	42,000	42,000	42,000	42,000	42,000	42,000	42,000	42,000	42,000	42,000	42,000	504,000	0
Non-management Salaries	4,000	4,000	4,000	5,000	5,000	6,000	6,000	6,000	6,000	6,700	6,700	59,700	0
Operating Expenses	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	120,000	0
Bad debt	0	0	625	1,250	1,875	3,750	3,750	5,000	5,000	6,250	6,250	40,000	0
Contributors	0	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation	20,238	20,238	20,238	20,238	20,238	20,238	20,238	20,238	20,238	20,238	20,238	242,857	0
Loan Payment Interest	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	180,000	0
Total Operating Expenses	\$91,238	\$91,238	\$91,663	\$93,488	\$94,113	\$95,988	\$91,588	\$98,238	\$98,238	\$100,188	\$100,188	\$100,188	\$1,465,557
Pre-Tax (\$)	(\$141,238)	(\$141,238)	(\$141,263)	(\$135,488)	(\$123,613)	(\$87,988)	(\$86,588)	(\$78,238)	(\$78,238)	(\$65,188)	(\$65,188)	(\$65,188)	(\$1,219,557)
Pre-Tax (%)	0.03%	0.03%	-55.45%	-270.98%	-164.82%	-58.66%	-64.35%	-39.12%	-39.12%	-26.08%	-26.08%	-26.08%	-76.22%
Fed Tax Provision													0
Dividends													0
Net Profit	(\$141,238)	(\$141,238)	(\$141,263)	(\$125,488)	(\$123,613)	(\$87,988)	(\$86,588)	(\$78,238)	(\$78,238)	(\$65,188)	(\$65,188)	(\$65,188)	(\$1,219,557)

11.2 Year Two Income/Expense

	Q1	Q2	Q3	Q4	Total
Revenue:					
Product/service sales	1,000,000	1,250,000	1,250,000	1,500,000	5,000,000
Maintenance					0
Consulting Services					0
Royalties					0
Interest					0
Other					0
Cust. Dep./Sale of Assets	0	0	0	0	0
Total revenue	\$1,000,000	\$1,250,000	\$1,250,000	\$1,500,000	\$5,000,000
Expenses:					
Cost of goods sold					
Management Salaries	75,000	75,000	75,000	75,000	300,000
Non-management Salaries	160,000	160,000	175,000	175,000	670,000
Production Expenses	500,000	625,000	625,000	750,000	2,500,000
Other	75,000	75,000	100,000	100,000	350,000
Gross margin	\$190,000	\$315,000	\$275,000	\$400,000	\$1,180,000
Management Salaries	180,000	210,000	270,000	300,000	960,000
Non-management Salaries	60,000	90,000	120,000	160,000	430,000
Operating Expenses	40,000	50,000	60,000	70,000	220,000
Bad debt	25,000	31,250	31,250	37,500	125,000
Contributions	0	0	0	0	0
Depreciation	85,714	85,714	85,714	85,714	342,857
Loan Payment Interest	0	0	0	0	0
Other	60,000	60,000	75,000	75,000	270,000
Total Operating Expenses	\$450,714	\$526,964	\$641,964	\$728,214	\$2,347,857
Pre-Tax (\$)	(\$260,714)	(\$211,964)	(\$366,964)	(\$328,214)	(\$1,167,857)
Pre-Tax (%)	-26.07%	-16.96%	-29.36%	-21.88%	-23.36%
Fed. Tax Provision					0
Dividends					0
Net Profit	(\$260,714)	(\$211,964)	(\$366,964)	(\$328,214)	(\$1,167,857)

11.3 Year Five Income/Expense

	2003	2004	2005	2006	2007
Revenue:					
Product/service sales	1,600,000	5,000,000	12,000,000	70,000,000	300,000,000
Maintenance	0	0			
Consulting Services	0	0			
Royalties	0	0			
Interest	0	0			
Other	0	0			
Cust. Dep./Sale of Assets	0	0	0	0	0
Total revenue	\$1,600,000	\$5,000,000	\$12,000,000	\$70,000,000	\$300,000,000
Expenses:					
Cost of Goods Sold					
Management Salaries	300,000	300,000	600,000	1,300,000	3,000,000
Non-management Salaries	390,000	670,000	1,500,000	3,000,000	8,000,000
Production Expenses	800,000	2,500,000	5,640,000	31,500,000	120,000,000
Other	183,000	350,000	700,000	3,500,000	15,000,000
Gross margin	(\$73,000)	\$1,180,000	\$3,560,000	\$30,700,000	\$154,000,000
Management Salaries	504,000	960,000	3,000,000	9,000,000	20,000,000
Non-management Salaries	59,700	430,000	1,000,000	5,000,000	10,000,000
Operating Expenses	120,000	220,000	500,000	3,000,000	10,000,000
Bad debt	40,000	125,000	300,000	1,750,000	7,500,000
Contributions	0	0			
Depreciation	242,857	342,857	514,286	557,143	771,429
Loan Payment Interest	0	0	0	0	0
Other	180,000	270,000	1,000,000	5,000,000	12,000,000
Total Operating Expenses	\$1,146,557	\$2,347,857	\$6,314,286	\$24,307,143	\$60,271,429
Pre-Tax Income	(\$1,219,557)	(\$1,167,857)	(\$2,754,286)	\$6,392,857	\$93,728,571
Pre-Tax (%)	-76.22%	-23.36%	-22.95%	9.13%	31.24%
Fedl Tax Provision	0	0	0	1,598,214	23,432,143
Dividends	0	0			
Net Profit	(\$1,219,557)	(\$1,167,857)	(\$2,754,286)	\$4,794,643	\$70,296,429

Demodulation LLC**Business Plan****11.4 Year One Cash Flow**

Source of Funds	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
Beginning cash	0	1,079,000	969,986	848,986	726,031	609,197	504,338	2,306,136	2,228,222	2,167,054	2,103,354	2,057,634	0
Sales/Svcs Income	0	0	0	17,123	42,123	67,123	126,370	150,000	184,247	200,000	234,247	250,000	1,271,233
Sale of Assets	0	0	0	0	0	0	0	0	0	0	0	0	0
Customer deposits	0	0	0	0	0	0	0	0	0	0	0	0	0
Loans	0	0	0	0	0	0	0	0	0	0	0	0	0
Contributed Capital	6,875,000	0	0	0	0	0	1,875,000	0	0	0	0	0	8,750,000
Available Cash	\$6,875,000	\$1,079,000	\$969,986	\$866,110	\$768,154	\$676,320	\$2,505,608	\$2,456,136	\$2,412,468	\$2,367,054	\$2,337,601	\$2,307,634	\$10,021,233
Use of Funds													
Salaries	96,000	96,000	96,000	102,000	102,000	102,000	102,600	108,000	108,000	113,700	113,700	113,700	1,253,700
Other oper. expenses	0	13,014	25,000	38,079	56,957	70,082	96,872	119,914	137,414	150,000	166,267	181,250	1,054,849
Loan payments	0	0	0	0	0	0	0	0	0	0	0	0	0
Capital Expenditures	5,700,000	0	0	0	0	0	0	0	0	0	0	0	5,700,000
Dividends	0	0	0	0	0	0	0	0	0	0	0	0	0
Tax Payments				0		0			0				0
Total Cash Out	\$5,796,000	\$109,014	\$121,000	\$140,079	\$158,957	\$172,082	\$199,472	\$227,914	\$245,414	\$263,700	\$279,967	\$294,950	\$8,008,549
Net Cash Flow	\$1,079,000	\$969,986	\$848,986	\$726,031	\$609,197	\$504,338	\$2,306,136	\$2,228,222	\$2,167,054	\$2,103,354	\$2,057,634	\$2,012,684	\$2,012,684

11.5 Year Two Cash Flow

Source of Funds	Q1	Q2	Q3	Q4	Totals
Beginning cash	2,012,684	2,980,149	2,813,968	4,432,375	2,012,684
Sales/Svcs Income	890,411	1,140,411	1,250,000	1,390,411	4,671,233
Sale of Assets	0	0	0	0	0
Customer deposits	0	0	0	0	0
Loans	0	0	0	0	0
Contributed Capital	1,875,000	0	1,875,000	0	3,750,000
Available Cash	\$4,778,095	\$4,120,560	\$5,938,968	\$5,822,786	\$10,433,916
Use of Funds					
Salaries	475,000	535,000	640,000	710,000	2,360,000
Other oper. expenses	622,945	771,592	866,592	962,842	3,223,973
Loan payments	0	0	0	0	0
Capital Expenditures	700,000	0	0	0	700,000
Dividends	0	0	0	0	0
Tax Payments	0	0	0	0	0
Total Cash Out	\$1,797,945	\$1,306,592	\$1,506,592	\$1,672,842	\$6,283,973
Net Cash Flow	\$2,980,149	\$2,813,968	\$4,432,375	\$4,149,944	\$4,149,944

Demodulation LLC**Business Plan****11.6 Year Five Cash Flow**

	2003	2004	2005	2006	2007
Source of Funds					
Beginning cash	0	2,012,684	4,149,944	4,296,793	10,055,976
Sales/Svcs Income	1,271,233	4,671,233	11,342,466	63,643,836	274,794,521
Sale of Assets	0	0	0	0	0
Customer deposits	0	0	0	0	0
Loans	0	0	0	0	0
Contributed Capital	8,750,000	3,750,000	3,750,000	3,750,000	0
Available Cash	\$10,021,233	\$10,433,916	\$19,242,410	\$71,690,629	\$284,850,497
Use of Funds					
Salaries	1,253,700	2,360,000	6,100,000	18,300,000	41,000,000
Other oper. expenses	1,054,849	3,223,973	7,645,616	40,236,438	149,736,301
Loan payments	0	0	0	0	0
Capital Expenditures	5,700,000	700,000	1,200,000	1,500,000	3,000,000
Dividends	0	0	0	0	0
Tax Payments	0	0	0	1,598,214	23,432,143
Total Cash Out	\$8,008,549	\$6,283,973	\$14,945,616	\$61,634,653	\$217,168,444
Net Cash Flow	\$2,012,684	\$4,149,944	\$4,296,793	\$10,055,976	\$67,682,052

Demodulation LLC**Business Plan****11.7 Balance Sheet**

	2003	2004	2005	2006	2007
Current Assets:					
Cash	2,012,684	4,149,944	4,296,793	10,055,976	67,682,052
Accounts Receivable	328,767	657,534	1,315,068	7,671,233	32,876,712
Inventories	206,260	470,959	1,040,548	4,845,205	18,000,000
Historical Other	0	0	0	0	0
Total Current Assets	\$2,547,711	\$5,278,437	\$6,652,410	\$22,572,414	\$118,558,765
Fixed Assets:					
Buildings & Equipment	1,700,000	2,400,000	3,600,000	5,100,000	8,100,000
Non-depreciable assets	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Less Accum Deprec.	-242,857	-585,714	-1,100,000	-1,657,143	-2,428,571
Total Fixed Assets	\$4,457,143	\$4,814,286	\$5,500,000	\$6,442,857	\$8,671,429
Other Assets	793,740	529,041	0	0	0
Total Assets	\$7,798,594	\$10,621,764	\$12,152,410	\$29,015,272	\$127,230,193
Current Liabilities:					
Accounts Payable	268,151	509,178	1,003,562	5,517,123	20,280,822
Short Term Loans	0	0	0	0	0
Other short term liabilities	0	0	40,548	3,845,205	17,000,000
Historical Other	0	0	0	0	0
Total Current Liabilities	\$268,151	\$509,178	\$1,044,110	\$9,362,329	\$37,280,822
Cust. Dep. Liability	0	0	0	0	0
Long-term Liabilities	0	0	0	0	0
Total Liabilities	\$268,151	\$509,178	\$1,044,110	\$9,362,329	\$37,280,822
Stockholder's Equity:					
Contributed Capital	8,750,000	12,500,000	16,250,000	20,000,000	20,000,000
Retained Earnings	-1,219,557	-2,387,414	-5,141,700	-347,057	69,949,371
Total Stockholder's Equity	\$7,530,443	\$10,112,586	\$11,108,300	\$19,652,943	\$89,949,371
Liabilities + Equity	\$7,798,594	\$10,621,764	\$12,152,410	\$29,015,272	\$127,230,193

12.0 Financial Alternatives

12.1 Best Case

	% Chg	2003	2004	2005	2006	2007
Revenue:						
Product/service sales	25%	2,000,000	6,250,000	15,000,000	87,500,000	375,000,000
Maintenance		0	0	0	0	0
Consulting Services		0	0	0	0	0
Royalties		0	0	0	0	0
Interest		0	0	0	0	0
Other		0	0	0	0	0
Cust. Dep./Sale of Assets		0	0	0	0	0
Total revenue		\$2,000,000	\$6,250,000	\$15,000,000	\$87,500,000	\$375,000,000
Expenses:						
Cost of Goods Sold						
Management Salaries		300,000	300,000	600,000	1,300,000	3,000,000
Non-management Salaries		390,000	670,000	1,500,000	3,000,000	8,000,000
Production Expenses		800,000	2,500,000	5,640,000	31,500,000	120,000,000
Other		183,000	350,000	700,000	3,500,000	15,000,000
Gross margin		\$327,000	\$2,430,000	\$6,560,000	\$48,200,000	\$229,000,000
Management Salaries		504,000	960,000	3,000,000	9,000,000	20,000,000
Non-management Salaries		59,700	430,000	1,000,000	5,000,000	10,000,000
Operating Expenses		120,000	220,000	500,000	3,000,000	10,000,000
Bad debt		40,000	125,000	300,000	1,750,000	7,500,000
Contributions		0	0	0	0	0
Depreciation	xxxxx	242,857	342,857	514,286	557,143	771,429
Loan Payment Interest	xxxxx	0	0	0	0	0
Dividends		0	0	0	0	0
Other		180,000	270,000	1,000,000	5,000,000	12,000,000
Total Operating Expenses		\$1,146,557	\$2,347,857	\$6,314,286	\$24,307,143	\$60,271,429
Pre-Tax Income		(\$819,557)	\$82,143	\$245,714	\$23,892,857	\$168,728,571
Pre-Tax (%)		-40.98%	1.31%	1.64%	27.31%	44.99%
Fedl Tax Provision		0	20,536	61,429	5,973,214	42,182,143
Net Profit		(\$819,557)	\$61,607	\$184,286	\$17,919,643	\$126,546,429

12.2 Worst Case

Demodulation LLC**Business Plan**

	% Chg	2003	2004	2005	2006	2007
Revenue:						
Product/service sales	-25%	1,200,000	3,750,000	18,750,000	56,250,000	225,000,000
Maintenance		20,000	50,000	2,000,000	4,000,000	7,000,000
Consulting Services		30,000	50,000	100,000	200,000	300,000
Royalties		0	0	0	0	0
Interest		50,000	200,000	250,000	250,000	250,000
Other		30,000	30,000	30,000	30,000	30,000
Cust. Dep./Sale of Assets		0	0	0	0	0
Total revenue		\$1,330,000	\$4,080,000	\$21,130,000	\$60,730,000	\$232,580,000
Expenses:						
Cost of Goods Sold						
Management Salaries		300,000	300,000	400,000	7,000,000	15,000,000
Non-management Salaries		65,000	120,000	500,000	5,000	10,000,000
Production Expenses		100,000	300,000	600,000	3,000,000	30,000,000
Other		50,000	200,000	500,000	3,000,000	5,000,000
Gross margin		\$815,000	\$3,160,000	\$19,130,000	\$47,725,000	\$172,580,000
Management Salaries		504,000	960,000	3,000,000	9,000,000	20,000,000
Non-management Salaries		59,700	430,000	1,000,000	5,000,000	10,000,000
Operating Expenses		120,000	220,000	500,000	3,000,000	10,000,000
Bad debt		40,000	125,000	300,000	1,750,000	7,500,000
Contributions		0	0	0	0	0
Depreciation	xxxxx	242,857	342,857	514,286	557,143	771,429
Loan Payment Interest	xxxxx	0	0	0	0	0
Dividends		0	0	0	0	0
Other		180,000	270,000	1,000,000	5,000,000	12,000,000
Total Operating Expenses		\$1,146,557	\$2,347,857	\$6,314,286	\$24,307,143	\$60,271,429
Pre-Tax Income		(\$331,557)	\$812,143	\$12,815,714	\$23,417,857	\$112,308,571
Pre-Tax (%)		-24.93%	19.91%	60.65%	38.56%	48.29%
Fedl Tax Provision		0	203,036	3,203,929	5,854,464	28,077,143
Net Profit		(\$331,557)	\$609,107	\$9,611,786	\$17,563,393	\$84,231,429

13.0 Financial Agenda

13.1 Assumptions

We expect that our market will create strong demand to allow us to grow at a rapid pace. The demand will be increase as we successfully introduce our new products and technologies. The first year sales represent customer trial and beta site testing. Year 2004 will be the foundation for significant growth in 2005 that will be \$25MM and \$300MM in year 2007. This growth does not include the opportunity for encoded product that will be more than double our projected sales. This assumes we are successful in the development of encoded product technology. Additionally, this plan does not include the sales from antenna and receivers (EAS Systems) that should increase our projected sales 25 percent any given year.

We project we will receive income from our invoices an average of 40 days and that we will pay for invoices that we receive in an average of 45 days.

A seven-year depreciation schedule was used for equipment and a 20-year schedule for buildings.

We expect an inventory turnover once every 40 days.

We are projecting one time start-up costs of \$20MM.

We will require capital investment of \$6.4MM in the first year of the plan.

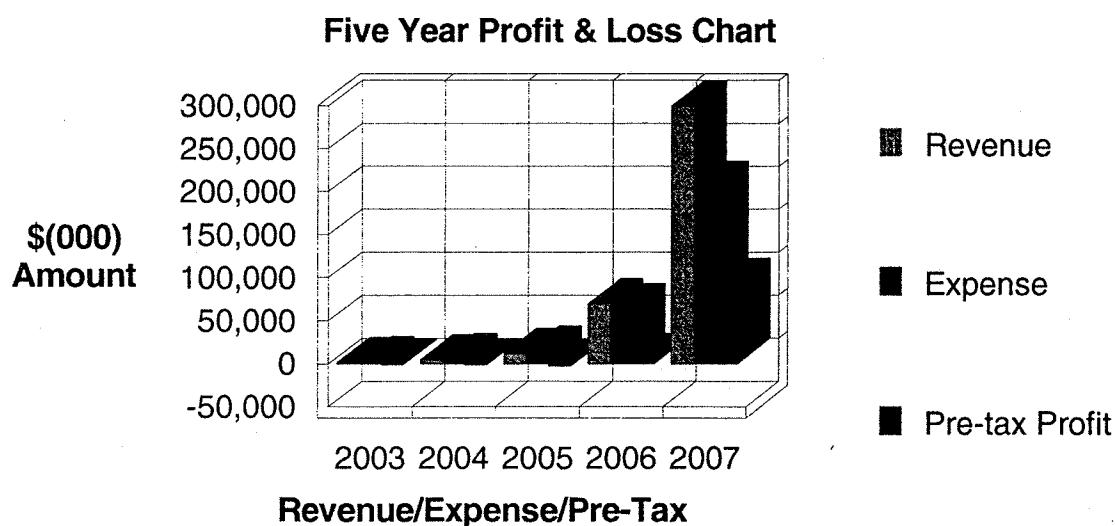
We will require capital investments \$700,000 in the second year of the plan that is included in the one time start up costs. Additional expansion will be required for years 2005/2006/2007 for which the costs are included in the one time start up costs.

13.2 Ratios

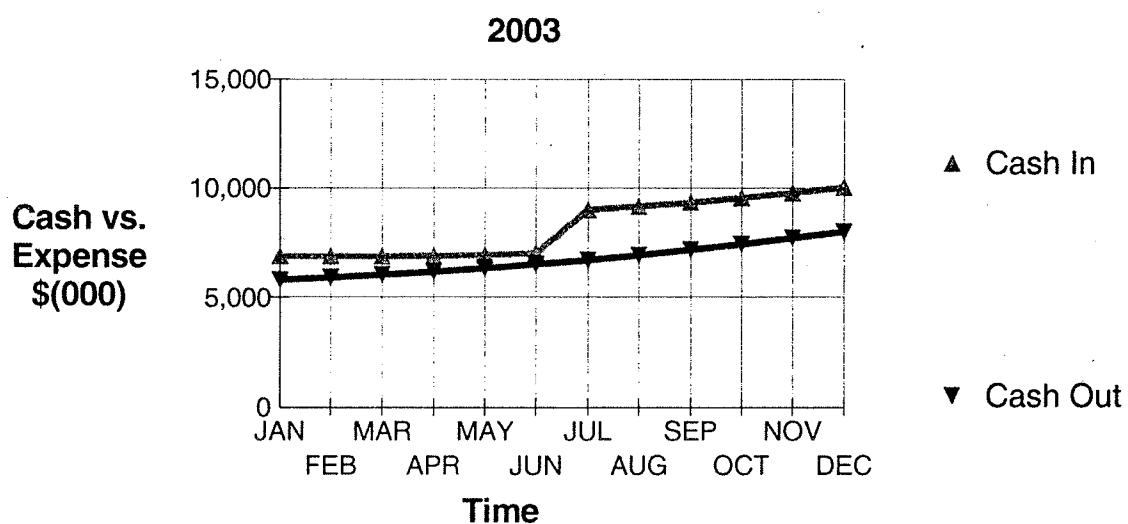
	2003	2004	2005	2006	2007
Cash Ratio	7.51	8.15	4.12	1.07	1.82
Quick Ratio	8.73	9.44	5.37	1.89	2.70
Current Ratio	9.50	10.37	6.37	2.41	3.18
Current Liabilities to Net Worth	0.04	0.05	0.09	0.48	0.41
Total Liabilities to Net Worth	0.04	0.05	0.09	0.48	0.41
Fixed Assets to Net Worth	0.59	0.48	0.50	0.33	0.10
Fixed Assets to Total Assets	0.57	0.45	0.45	0.22	0.07

14.0 Financial Charts

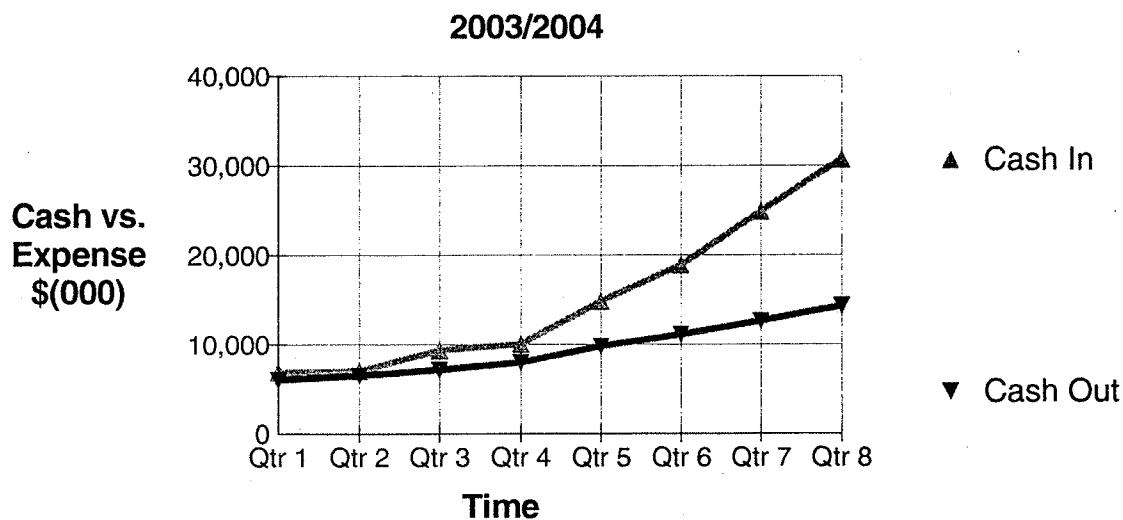
14.1 Five Year Profit & Loss



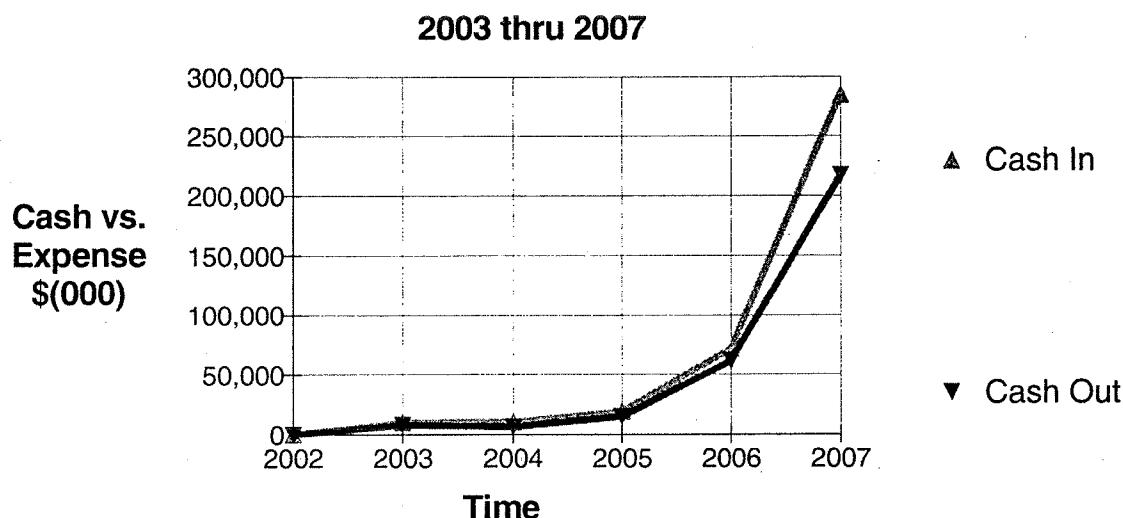
14.2 One Year Break Even



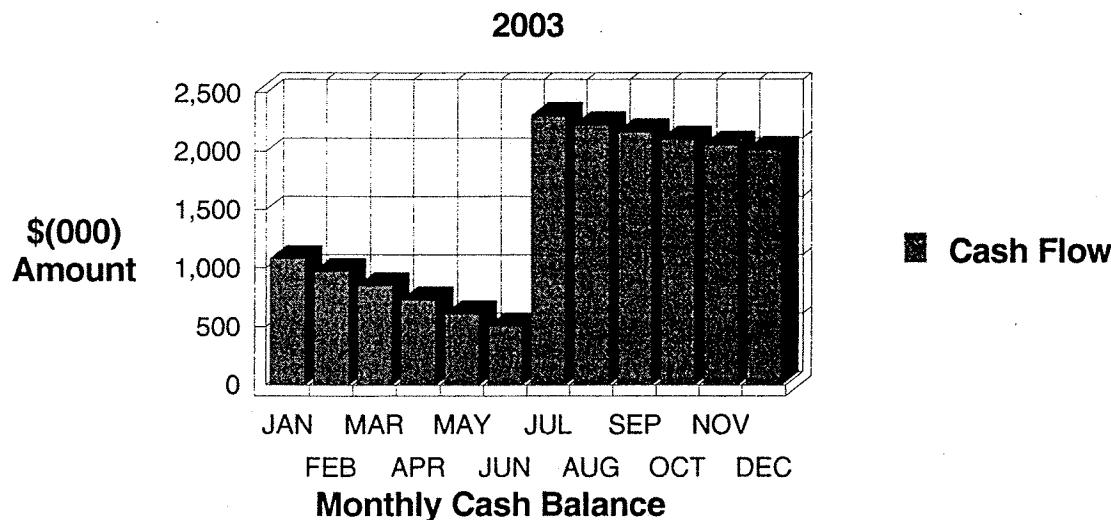
14.3 Two Year Break Even



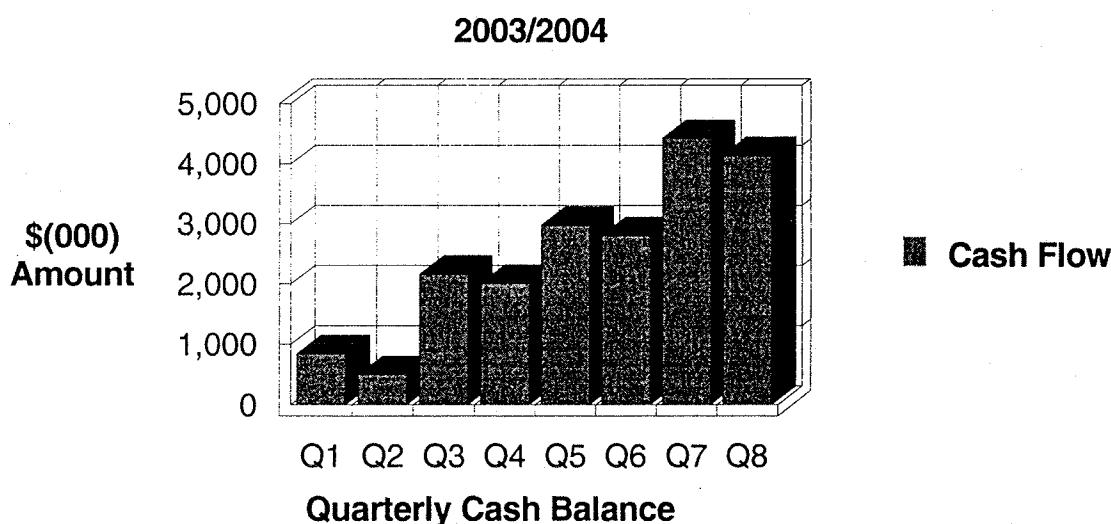
14.4 Five Year Break Even



14.5 One Year Cash Flow



14.6 Two Year Cash Flow



14.7 Five Year Cash Flow

